Half-yearly report as at 30 June 2018

This is an English translation of the original Italian document "Relazione semestrale al 30 giugno 2018". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.
This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.
Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.
All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Half-yearly report as at 30 June 2018

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 9,084,056,582.12. 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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THE INTESA SANPAOLO GROUP

The Intesa Sanpaolo Group: presence in Italy

Banks

BANCA IMI

CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,141	Fideuram	89
	Banca Prossima	29
	Mediocredito Italiano	4
	Banca IMI	1
	Banca 5	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
578	CR del Veneto	297
	CR in Bologna	151
	CR del Friuli Venezia Giulia	88
	CR di Forlì e della Romagna	77
	Fideuram	56
	Banca Prossima	16
	Mediocredito Italiano	2

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
571	Banca CR Firenze	286
	Fideuram	41
	Banca Prossima	10
	Banco di Napoli	4
	Banca Apulia	2
	Mediocredito Italiano	2
	Banca IMI	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
112	Banco di Napoli	548
	Banca Apulia	98
	Fideuram	26
	Banca Prossima	20
	Mediocredito Italiano	2

ISLANDS

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

Figures as at 30 June 2018

Product Companies

INTESA SANPAOLO VITA

Bancassurance and Pension Funds

Industrial credit, Factoring and Leasing

Asset Management

Fiduciary Services

The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

BANCA INTESA
Beograd

CIB BANK

EXIMBANK

FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

INTESA SANPAOLO BANK LUXEMBOURG

INTESA SANPAOLO BANK
Romania

INTESA SANPAOLO BANK
Slovenia

INTESA SANPAOLO BANK IRELAND

INTESA SANPAOLO BRASIL SA

INTESA SANPAOLO PRIVATE BANK SUISSE

PRIVREDNA BANKA ZAGREB

VENETO BANKA CROAZIA

AMERICA

Direct Branches	Representative Offices
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	Moscow
London	
Madrid	
Paris	
Warsaw	

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	172

Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	32
	Veneto Banka Albania	12
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	54
Croatia	Privredna Banka Zagreb	194
	Veneto Banka Croazia	1
Czech Republic	VUB Banka	1
Hungary	CIB Bank	70
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	18
Romania	Intesa Sanpaolo Bank Romania	35
Russian Federation	Banca Intesa	32
Serbia	Banca Intesa Beograd	158
Slovakia	VUB Banka	223
Slovenia	Intesa Sanpaolo Bank	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
	Banque Morval	2
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex-Bank	50
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Banking	1

Figures as at 30 June 2018
(1) International and Regulatory Affairs

Product Companies

PBZ CARD

Consumer Credit, E-money and Payment Systems

Leasing

VÚB ASSET MANAGEMENT

Wealth Management

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

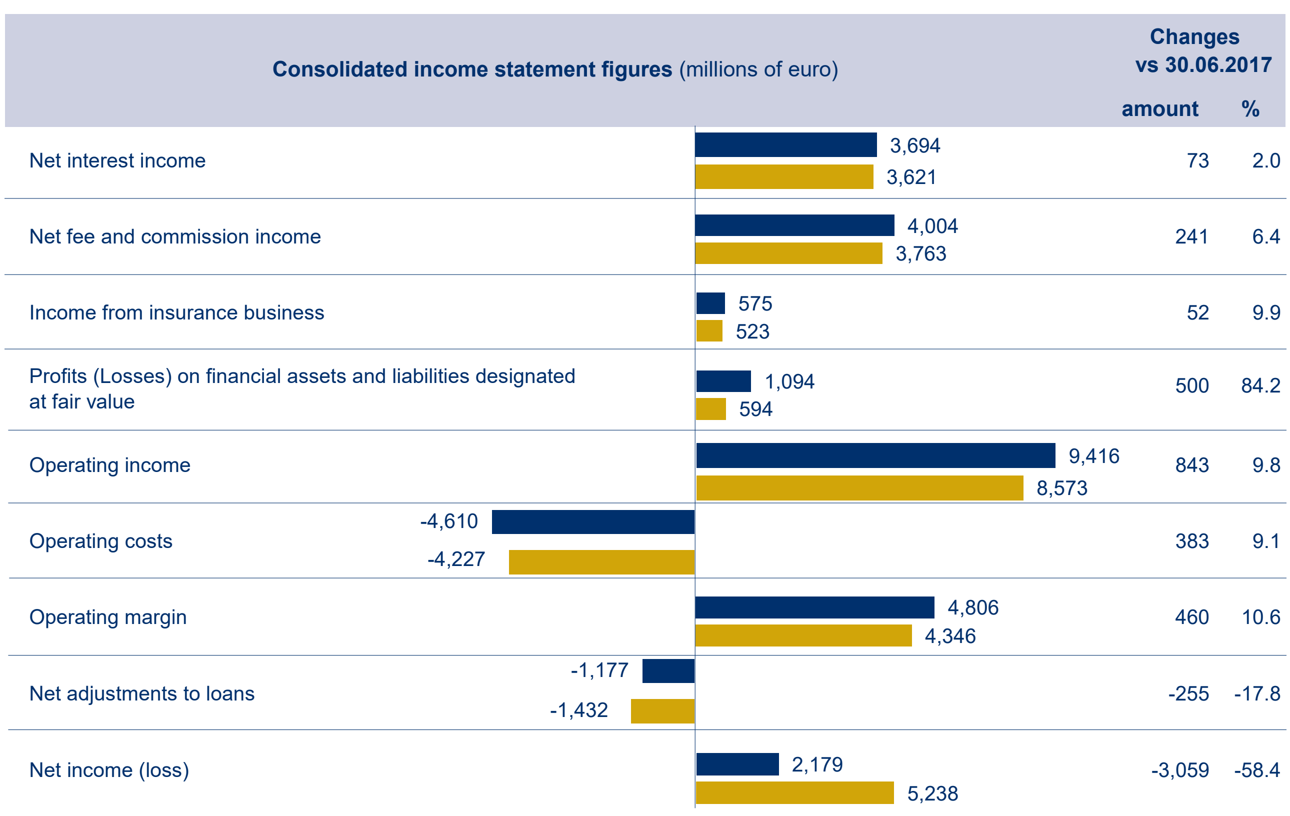
Half-yearly report on operations

Introduction

The Half-yearly Report as at 30 June 2018 is made up of the Half-yearly report on operations and the Half-yearly condensed consolidated financial statements including the financial statements and related explanatory notes. The Half-yearly condensed consolidated financial statements as at 30 June 2018 have been prepared in compliance with art. 154-ter of Legislative Decree 58 of 24 February 1998 and in application of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as provided for by European Regulation 1606 of 19 July 2002, and as illustrated in detail in the chapter “Accounting Policies”. In particular, the Half-yearly condensed consolidated financial statements, subject to limited review, have been drawn up in compliance with IAS 34 requirements, which regulate interim reports.
To support the comments on results for the period, the notes to the Half-yearly condensed consolidated financial statements also present and illustrate reclassified income statement and balance sheet schedules.
The reconciliation with the financial statements, envisaged by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments.
The Half-yearly report on operations and the Half-yearly condensed consolidated financial statements contain financial information – for example, figures on quarterly development, and other alternative performance measures – not directly attributable to the financial statements.
As detailed in the relevant chapters of this document, following the adoption of IFRS 9 the financial statements referred to above have been amended with respect to those published in 2017 in accordance with the provisions of Bank of Italy Circular no. 262, governing bank financial statements and to take account of the regulatory developments and the option of adopting the Deferral Approach by the Intesa Sanpaolo Group. In accordance with such approach the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts (IFRS 17).
As a consequence, the reclassified statements presented and commented on in this Half-yearly Report have also been duly amended with respect to those published in 2017.
Please note that the website of Intesa Sanpaolo, at www.group.intesasanpaolo.com, contains the press releases issued during the period together with other financial documents.

Overview of the first half 2018

Income statement figures and alternative performance measures

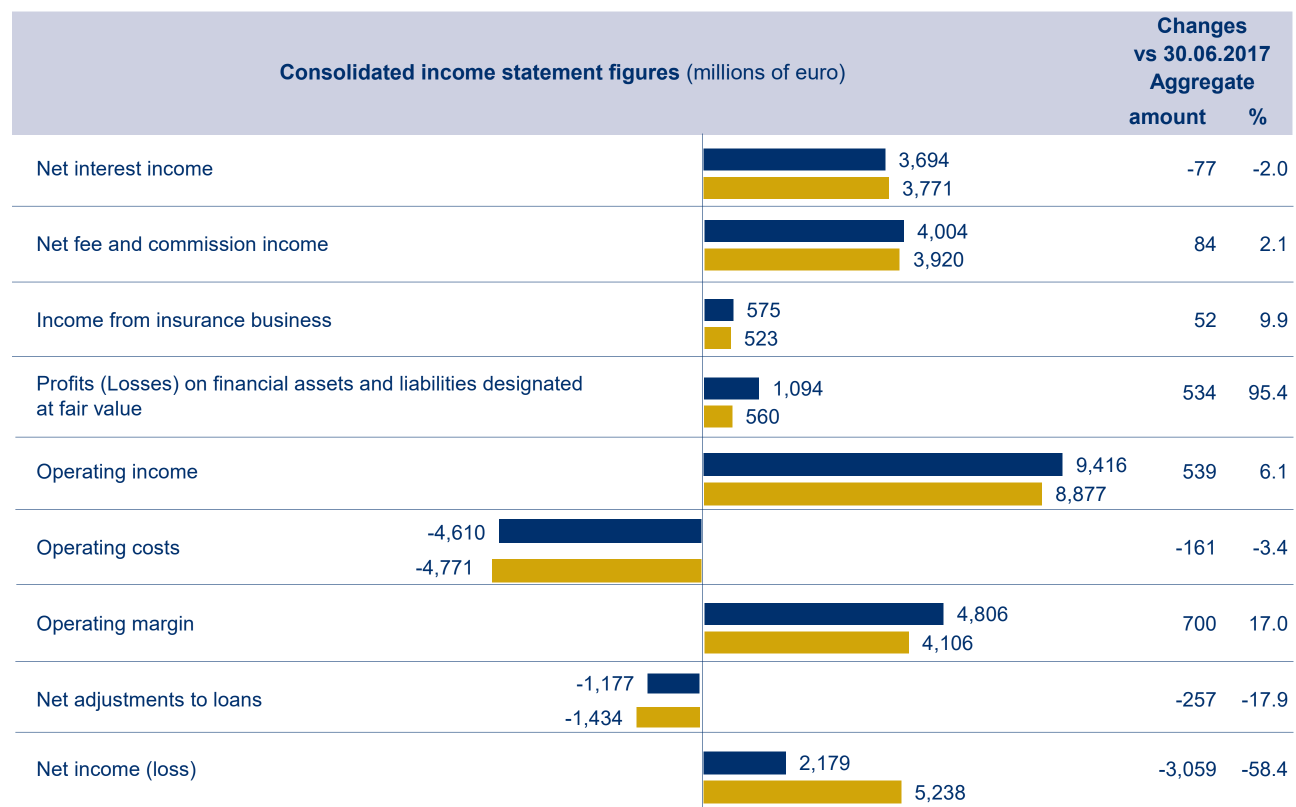


Consolidated income statement figures (millions of euro)	30.06.2018	30.06.2017	Changes vs 30.06.2017 amount	Changes vs 30.06.2017 %
Net interest income	3,694	3,621	73	2.0
Net fee and commission income	4,004	3,763	241	6.4
Income from insurance business	575	523	52	9.9
Profits (Losses) on financial assets and liabilities designated at fair value	1,094	594	500	84.2
Operating income	9,416	8,573	843	9.8
Operating costs	-4,610	-4,227	383	9.1
Operating margin	4,806	4,346	460	10.6
Net adjustments to loans	-1,177	-1,432	-255	-17.8
Net income (loss)	2,179	5,238	-3,059	-58.4

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

30.06.2018

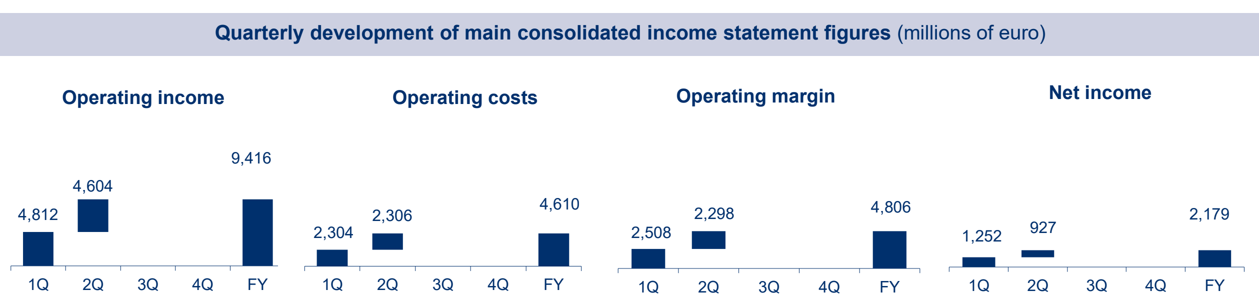
30.06.2017

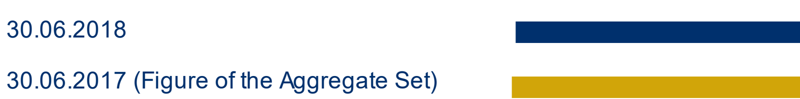


Consolidated income statement figures (millions of euro)	30.06.2018	30.06.2017 (Aggregate Set)	Changes vs 30.06.2017 Aggregate amount	%
Net interest income	3,694	3,771	-77	-2.0
Net fee and commission income	4,004	3,920	84	2.1
Income from insurance business	575	523	52	9.9
Profits (Losses) on financial assets and liabilities designated at fair value	1,094	560	534	95.4
Operating income	9,416	8,877	539	6.1
Operating costs	-4,610	-4,771	-161	-3.4
Operating margin	4,806	4,106	700	17.0
Net adjustments to loans	-1,177	-1,434	-257	-17.9
Net income (loss)	2,179	5,238	-3,059	-58.4

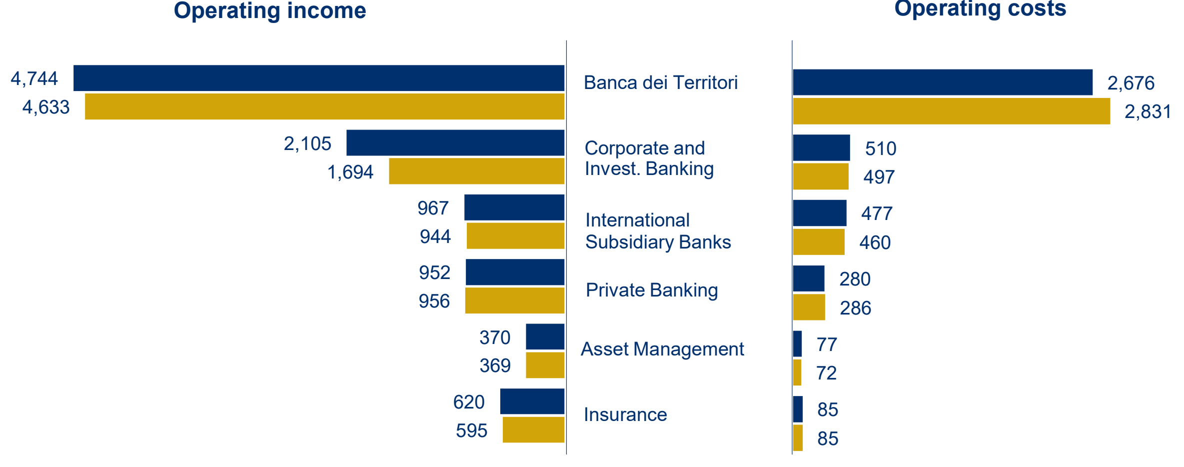
Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

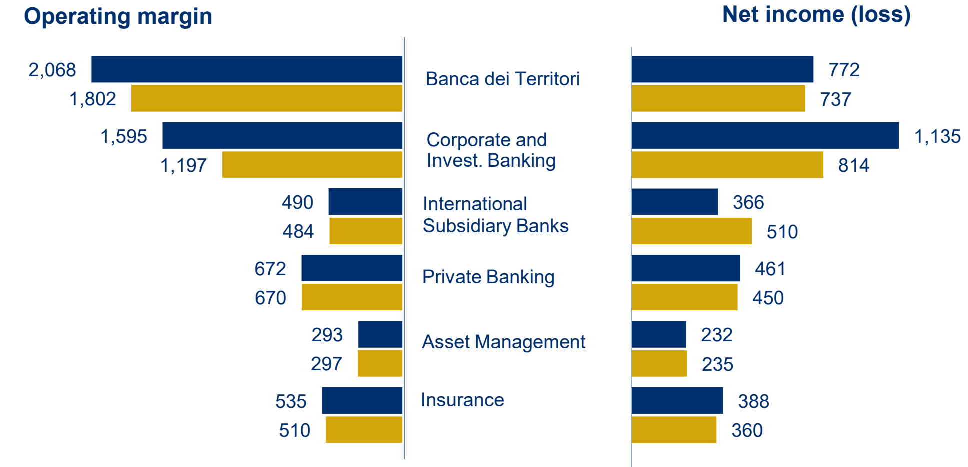
Quarterly development of main consolidated income statement figures (millions of euro)





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



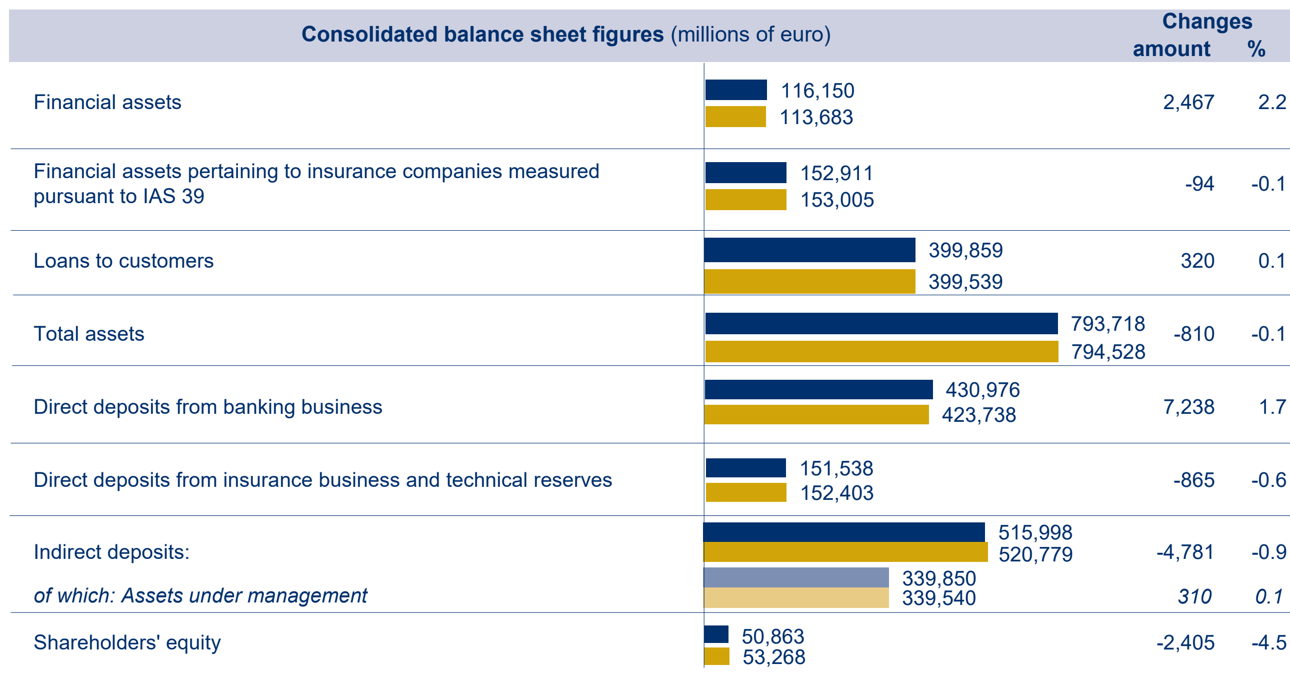


Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.
Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

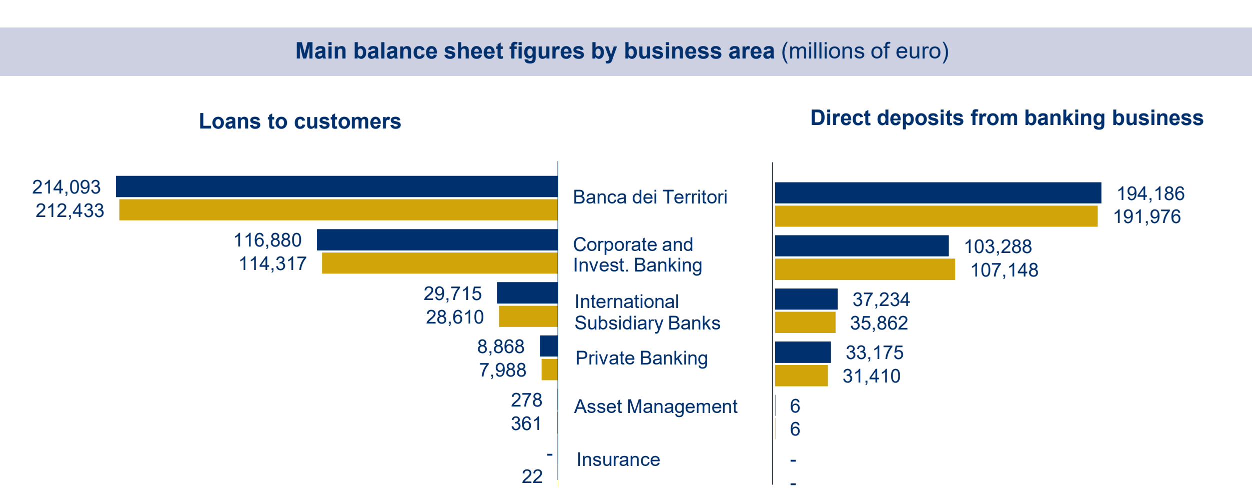
30.06.2018

30.06.2017 (Figure of the Aggregate Set)

Balance sheet figures and alternative performance measures



Consolidated balance sheet figures (millions of euro)	30.06.2018	01.01.2018	Changes amount	Changes %
Financial assets	116,150	113,683	2,467	2.2
Financial assets pertaining to insurance companies measured pursuant to IAS 39	152,911	153,005	-94	-0.1
Loans to customers	399,859	399,539	320	0.1
Total assets	793,718	794,528	-810	-0.1
Direct deposits from banking business	430,976	423,738	7,238	1.7
Direct deposits from insurance business and technical reserves	151,538	152,403	-865	-0.6
Indirect deposits:	515,998	520,779	-4,781	-0.9
of which: Assets under management	339,850	339,540	*310*	*0.1*
Shareholders' equity	50,863	53,268	-2,405	-4.5



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

	Loans to customers 30.06.2018	Loans to customers 01.01.2018	Direct deposits from banking business 30.06.2018	Direct deposits from banking business 01.01.2018
Banca dei Territori	214,093	212,433	194,186	191,976
Corporate and Invest. Banking	116,880	114,317	103,288	107,148
International Subsidiary Banks	29,715	28,610	37,234	35,862
Private Banking	8,868	7,988	33,175	31,410
Asset Management	278	361	6	6
Insurance	-	22	-	-

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

Alternative performance measures and other measures

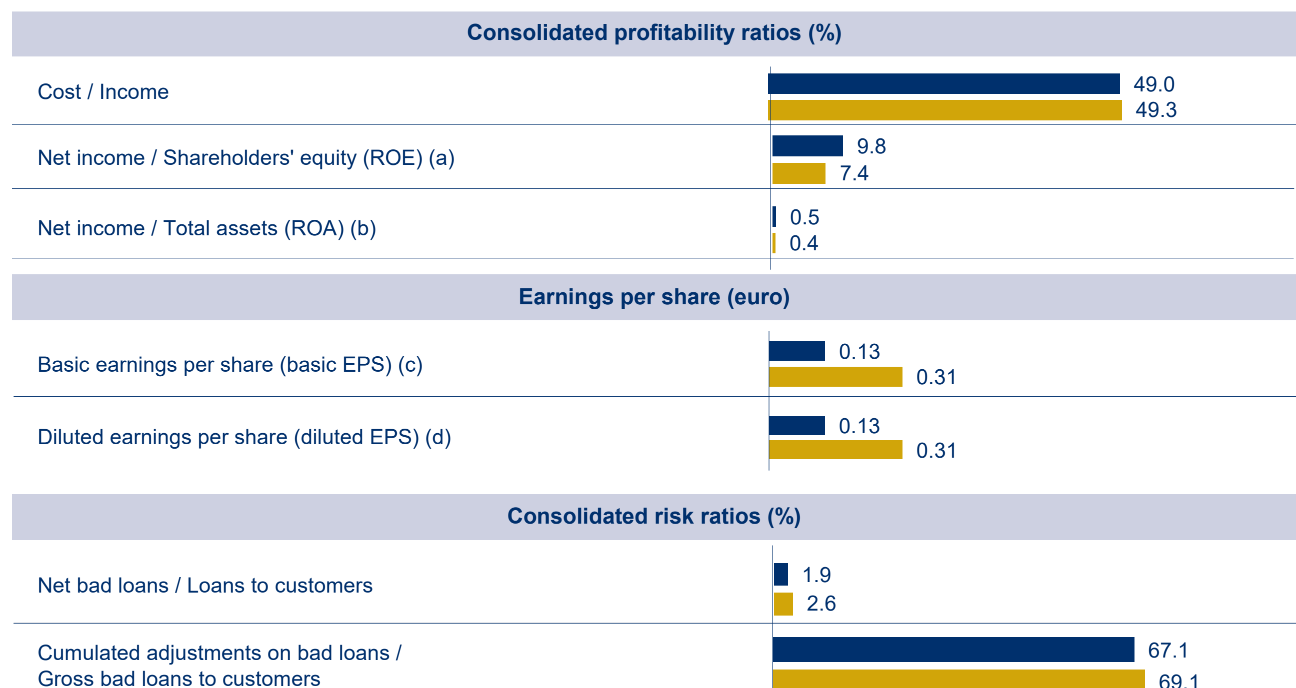
Consolidated capital ratios (%)

	30.06.2018	31.12.2017
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/ Risk-weighted assets (Common Equity Tier 1 capital ratio)	12.8	13.3
TIER 1 Capital / Risk-weighted assets	14.6	15.2
Total own funds / Risk-weighted assets	17.1	17.9
Risk-weighted assets (millions of euro)	282,383	286,825
Absorbed capital (millions of euro)	30,769	31,197

Risk-weighted assets by business area (millions of euro) / **Absorbed capital by business area (millions of euro)**

	Risk-weighted assets 30.06.2018	Risk-weighted assets 31.12.2017	Absorbed capital 30.06.2018	Absorbed capital 31.12.2017
Banca dei Territori	96,417	92,983	8,919	8,601
Corporate and Invest. Banking	80,855	80,485	7,481	7,446
International Subsidiary Banks	30,799	30,767	3,401	3,415
Private Banking	10,178	10,218	982	986
Asset Management	918	914	99	99
Insurance	-	-	4,040	4,040

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



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

(a) Ratio of net income, less non-recurring components, to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period.

(b) Ratio of net income, less non-recurring components, to total assets. 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	30.06.2018	31.12.2017	Changes amount
Number of employees	**94,829**	**97,305**	**-2,476**
Italy	70,355	72,489	-2,134
Abroad	24,474	24,816	-342
Number of financial advisors	**5,194**	**5,176**	**18**
Number of branches (e)	**5,659**	**5,843**	**-184**
Italy	4,531	4,694	-163
Abroad	1,128	1,149	-21

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

(e) Including Retail Branches, SME Branches and Corporate Branches. The figures for comparison have not been restated.

30.06.2018

30.06.2017 (Income statement figures)
01.01.2018 (Balance sheet figures)

Transition to IFRS 9

IFRS 9: the new financial reporting standard on financial instruments

The regulations

The new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, has replaced IAS 39, which until 31 December 2017 had governed the classification and measurement of financial instruments, with effect from 1 January 2018.

IFRS 9 is structured into the three different areas of classification and measurement of financial instruments, impairment and hedge accounting.

In the first area, IFRS 9 requires the classification of financial assets to be guided, on the one hand, by the characteristics of the related contractual cash flows and, on the other hand, by the business model for which the assets are held. In replacement of the previous four accounting categories, under IFRS 9 financial assets may be classified into three categories, according to the drivers indicated above: Financial assets measured at amortised cost, Financial assets measured at fair value through other comprehensive income (for debt instruments, the reserve is transferred to profit or loss in the event of disposal of the instrument) and, lastly, Financial assets measured at fair value through profit or loss. Financial assets can be recognised in the first two categories and can therefore be measured at amortised cost or at fair value through other comprehensive income, only if it is demonstrated that they give rise to cash flows that consist of solely payments of principal and interest (SPPI Test). Equity instruments are always recognised in the third category and measured at fair value through profit or loss unless the entity elects (irrevocably, upon initial recognition), for equities not held for trading, to present changes in value in other comprehensive income, which will never be recycled to profit or loss, even in the event of the disposal of the financial instrument (Financial assets measured at fair value through other comprehensive income without “recycling”).

There are no major changes with respect to the classification and measurement of financial liabilities under IAS 39. The sole change relates to the accounting treatment of own credit risk: for financial liabilities designated at fair value (fair value option liabilities), the standard requires that changes in fair value attributable to the change in own credit risk be recognised through other comprehensive income, unless this treatment creates or increases an accounting mismatch in profit or loss, whereas the remaining amount of changes in the fair value of the liabilities must be recognised in profit or loss.

With respect to impairment, a model has been introduced for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments) based on the concept of “expected loss” instead of the “incurred loss” envisaged by IAS 39, aimed at recognising losses in a more timely manner. IFRS 9 requires that entities recognise expected credit losses over the next 12 months (stage 1) starting from initial recognition of the financial instrument. The time horizon for calculating expected losses is the entire residual life of the asset being measured if credit risk has increased "significantly" since initial recognition (stage 2) or if it is impaired (stage 3). More specifically, the introduction of the new impairment rules involves the:

- allocation of performing financial assets to different credit risk stages (staging), which correspond to value adjustments based on 12-month Expected Credit Losses (ECL) (Stage 1), or lifetime ECL over the remaining duration of the instrument (Stage 2), if there is a significant increase in the credit risk (SICR) determined by comparing the Probabilities of Default at the initial recognition date and at the reporting date;
- allocation of the non-performing financial assets to Stage 3, again with value adjustments based on the lifetime ECL;
- inclusion of forward-looking information in the calculation of the ECL, also consisting of information on the evolution of the macroeconomic scenario.

Finally, with regard to hedge accounting, the new model for hedging - which, however, does not apply to macro-hedging - aims to ensure that accounting treatment is consistent with risk management activity and to enhance disclosure of risk management activity by the reporting entity.

The choices made by the Intesa Sanpaolo Group

It is worth noting the choices of a “general” nature made by the Intesa Sanpaolo Group regarding the scope of companies subject to the new standard, the recognition of the impacts on own funds resulting from the application of the new impairment rules, according to the recent amendments made to the prudential regulations, and the presentation of the comparative figures in the year of first time adoption of the standard:

- the Intesa Sanpaolo Group, as a financial conglomerate primarily engaged in banking activities, has decided to exercise the option of adopting the Deferral Approach (or Temporary Exemption), according to which the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. The deferral of the adoption of IFRS 9 by the companies of the Insurance Division means that, starting from 1 January 2018, different accounting standards need to be applied for the financial assets and liabilities within the Group’s consolidated financial statements. In view of the discretion given by the Bank of Italy regarding how this choice and its effects should be presented in the financial statements, the Group has decided to add specific captions to the official consolidated financial statements layouts provided by the 5th update to Bank of Italy Circular 262 (effective from 2018) and provide the related disclosures in the Notes to the Financial Statements, in compliance with the requirements of IFRS 7, and the Amendment to IFRS 4, which are aimed at presenting the requirements for benefiting from the temporary exemption and ensuring compatibility between insurers that apply the temporary exemption and entities that apply IFRS 9;
- on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation 575/2013 CRR, adding the new article 473a "Introduction of IFRS 9", which gives banks the possibility of mitigating the impact on their own funds resulting from the introduction of IFRS 9 over a transitional period of 5 years (from March 2018 to December 2022) by neutralising the impact on CET1 through the application of decreasing percentages over time. The Intesa Sanpaolo Group has decided to adopt the “static approach”, to be applied to the impact resulting from the comparison between the IAS 39 value adjustments as at 31/12/2017 and IFRS 9 value adjustments as at 1/1/2018. From 2018, banks that opt for the transitional arrangements will, however, be required to provide market disclosure regarding the “fully loaded” Available Capital, RWA, Capital Ratio and Leverage Ratio, in accordance with the Guidelines issued on 12 January 2018;
- Lastly, with regard to the methods of presentation of the effects of first-time adoption of the standard, the Group has exercised the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-Time Adoption of International Financial Reporting Standards”, according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. According to the instructions contained in the document issuing the 5th update of Circular 262 “Bank financial statements: layouts and preparation”, banks that make use of the exemption from the requirement to restate the comparative information must nonetheless include a reconciliation statement in the first financial statements prepared based on the new Circular 262. This statement must show the method used and provide a reconciliation between the information from the last approved financial statements and the first financial statements prepared according to the new provisions. The form and content of this disclosure is left to the independent discretion of the competent company bodies.

A brief analysis is provided below of the main areas of impact of the new financial reporting standard as identified above, as well as the main choices made in this regard by the Intesa Sanpaolo Group.

Classification and Measurement

To be able to comply with the requirements of IFRS 9, according to which the classification of financial assets is guided, on one hand, by the contractual cash flow characteristics of the instruments and, on the other hand, by the business model under which they are held, methods were identified for testing the contractual cash flow characteristics (SPPI test), while the business models adopted by the various structures through which the Group operates have been formalised.

For the SPPI testing of financial assets, based on the method identified, the analysis was completed of the composition of the securities and loans portfolios outstanding as at 31 December 2017 to determine the correct classification upon First Time Adoption (FTA) of the new standard.

For debt securities in particular, a detailed examination was conducted on the cash flow characteristics of the instruments classified at amortised cost and in the Financial assets available for sale category according to IAS 39, to identify the assets that do not pass the SPPI test and must therefore be classified under assets mandatorily measured at fair value through profit or loss according to IFRS 9. Only an insignificant percentage of debt securities out of the overall Group portfolio did not pass the SPPI test, mainly consisting of instruments that create concentrations of credit risk (tranches) and structured securities. In addition, based on analyses conducted and the interpretations provided by the IFRS Interpretation Committee, units of UCIs (open funds and closed-end funds) have been classified under assets mandatorily measured at fair value through profit or loss.

For the loans segment, the IFRS 9 implementation project has carried out modular analyses that take account of the significance of the portfolios, of their uniformity and of the business Division. The analyses used different approaches for the retail loan and corporate loan portfolios. As a result, only marginal cases were found which, due to their specific contractual clauses or the nature of the loan, failed the SPPI test. Accordingly, no significant impacts were identified also for the loans segment upon FTA.

With regard to the second classification driver for the financial assets (the business model), the business models have been identified for each business division. For the Hold to Collect portfolios, the limits have been set for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk. More specifically, within an HTC business model sales are allowed:

- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - significance is defined as the percentage ratio between the nominal value of the sales and the total nominal value of the instruments held in the portfolio over the period considered.

  If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).

The analyses conducted identified that the portfolios of debt securities measured at amortised cost pursuant to IAS 39 generally have little movement, consistent with the management strategy of a Hold to Collect business model.
However, for debt securities classified – also in accordance with IAS 39 – as Financial assets available for sale, the adoption of a Hold to Collect and Sell business model has been identified for the majority of the portfolios. Some portfolio reclassifications have been carried out upon FTA, in only a few cases related to small-sized portfolios, to take account, as required by the standard, of the underlying business model on the IFRS 9 first-time adoption date. These reclassifications concerned, in particular, debt securities, measured at fair value through other comprehensive income under IAS 39, which were included in a Hold to Collect business model on FTA and therefore measured using the amortised cost method, if they passed the SPPI test.
For loans, the current business model, both for retail and corporate counterparties, essentially corresponds to the Hold to Collect business model.
Lastly, more generally, for the business models under which the financial assets are held, a specific set of Business Model Rules has been produced, approved by the competent governance levels, aimed at defining and setting out the components of the business model, specifying its role in relation to the classification model governed by IFRS 9.

With regard to equity instruments, the instruments have been identified (classified in the financial assets available for sale category in accordance with IAS 39) for which to exercise the option of classification at fair value through other comprehensive income (without recycling to profit or loss) upon FTA. The general criteria have also been established that will guide this choice when the standard is "fully loaded" and the related organisational process has been formalised.

Lastly, after having completed a specific analysis, it was decided, for the Banking Group, not to use the fair value option (with separate recognition through other comprehensive income of the fair value changes attributable to the changes in the Group's credit rating) for the stock of financial liabilities as at 1 January 2018.

Impairment

With regard to the new impairment model:

- the methods have been established for the tracking of the credit quality of the positions included in the portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income;
- the parameters have been established for determining the significant increase in credit risk, for the correct allocation of performing exposures to stage 1 or stage 2. With regard to impaired exposures, on the other hand, the alignment of the definitions of accounting and regulatory default – already currently present – means that the current criteria for the classification of exposures as "non-performing/impaired" can be considered the same as the classification criteria for exposures within stage 3.
- the models have been produced – which include the forward-looking information – to be used for the stage allocation (based on the lifetime PD) and for the calculation of the 12-month expected credit loss (ECL) (to be applied to stage 1 exposures) and the lifetime ECL (to be applied to stage 2 and stage 3 exposures). To take into account forward-looking information and the macroeconomic scenarios in which the Group may have to operate, it was decided to adopt, as reported in greater detail below, the so-called "most likely scenario + Add-on" approach.

With regard to the tracking of credit quality – in line with the regulatory content of the standard and the instructions from the Supervisory Authorities regarding the methods for applying the reporting standard for larger sized banks – the policy has been established to be applied for the specific analysis of the credit quality of each individual relationship (both in the form of securitised exposure and the form of lending). This is aimed at identifying any "significant deterioration in credit risk" between the initial recognition date and the reporting date, with the consequent need for classification to stage 2, as well as, vice versa, the conditions for returning to stage 1. In other words, this operational choice involves, case-by-case and at each reporting date, the comparison – for the purposes of staging – between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase.

With regard to the above, the factors that – in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group – constitute the main drivers to be taken into consideration for the assessments regarding the "transfers" between the different stages are the following:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and, the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has “significantly increased” since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are considered for the purposes of the transfer between “stages” where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that, based on the current credit quality of the borrower, identify performing exposures above a certain level of risk.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk (“SICR”) is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position, measured in terms of notches, from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.
The above-mentioned “relative” change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered “significant” (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used are determined based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ according to residual maturity, annual granularity and rating class at the time of disbursement/purchase of each individual financial instrument.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:
- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the “first-in-first-out” or “FIFO” method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Lastly, solely with regard to the first-time adoption of the standard, for certain categories of exposures (specifically identified and mainly related to performing debt securities measured at fair value through other comprehensive income, held by the Parent Company and the Italian bank subsidiaries), the low credit risk exemption established by IFRS 9 has been used. Based on the exemption, exposures which, at the date of transition to the new standard, had a credit rating equivalent to investment grade have been considered to have a low credit risk and therefore as stage 1.

Once the allocation to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9. These corrections include the adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes, the estimate of the PDs and, where necessary, of the multi-period LGDs to determine the lifetime expected credit loss for the financial instrument, and the removal of the economic downturn component from the LGD calculation, as well as the use of the effective interest rate of the individual transactions in the discounting process.

The measurement of the financial assets – both performing and stage 3 – also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. Useful guidance has been provided by the TRG[1] regarding the incorporation of this information in the determination of the impairment of a loan. The issues addressed by the TRG included: (i) whether it is sufficient to use only one scenario, i.e. whether multiple scenarios need to be used in the impairment estimates; and (ii) if multiple scenarios need to be adopted, what methods should be adopted for this purpose. With regard to issue (i), the TRG noted that, when there is a non-linear relationship

[1] The TRG or “IFRS Transition Resource Group for impairment of financial instruments (ITG)” is a discussion forum aimed at supporting the implementation of certain aspects related to the new impairment requirements introduced by IFRS 9.

between macroeconomic variables and impairment losses, a single macroeconomic scenario is not representative of the entire distribution of possible scenarios and the estimate of impairment losses must therefore be based on multiple scenarios. With regard to issue (ii), the TRG noted that two methodologies can be used alternatively:

a) estimation of losses in each scenario considered and calculation of the average resulting loss, weighted by the probability of occurrence of each scenario;
b) estimation of losses based on the most likely scenario and application of an overlay adjustment (“add-on”) to take account of the less likely scenarios[2].

Information on future macroeconomic scenarios in which the Bank may find itself clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures).

In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plan) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.

The design of the most-likely scenario is performed using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:

- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- some specific data for the Italian economy (industrial production, employment, public finance balances).

These forecasts are then entered in the Oxford Economics multi-country structural model (Global Economic Model), where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The construction of the most-likely scenario is accompanied by the identification of alternative paths, used as inputs in the calculation of the Add-On using the Oxford Economics "Global Model” simulation environment. For some variables, alternative paths are set with respect to those in the most-likely scenario, which are used to solve the model to obtain consistent simulated paths for the other variables used in this process.

The key variables are:

- average annual GDP growth rates of several countries (Italy, United States, Germany, France, Spain and the United Kingdom);
- European stock market index (DJ Eurostoxx 50);
- US stock market index (S&P500);
- residential real estate prices (United States);
- residential real estate prices (Italy).

The alternative paths are selected using external information. In particular:

- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

For each quarter, the percentile relating to the change in the quarter in the most-likely scenario is identified with respect to the historical distribution of the changes related to the above indicators. The percentile value identified is used to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The new identified values are used as inputs for determining the negative Add-On (lowest value) and the positive Add-On (highest value). The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.

In applying the annual variations to the quarterly profile of the variables, any deviation from the annual average is distributed, within the forecast quarters for that year, based on a standardised levelling approach that minimises the overall variability of the variable’s profile.

[2] These alternative methods are also envisaged in the document produced by the Global Public Policy Committee of representatives of the six largest accounting networks, of 17 June 2016, entitled “*The implementation of IFRS 9 impairment requirements by banks. Considerations for those charged with governance of systematically important banks*”.

The resulting two sets of alternative variables obtained are used as inputs in the Oxford Economics Global Model, which is then solved to obtain consistent paths for all the remaining variables and countries. The model's output consists of two datasets of variables that, through the model's equations, reflect the two shocks applied (worst case and best case). The datasets are checked for any excessive quarterly volatility and/or inconsistencies in the path of the secondary variables. Where necessary, the results are fine-tuned. From these datasets, the set of variables is then extracted that constitute the smallest datasets provided to construct alternative add-on scenarios in the later stages of the process.
In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

Specific considerations apply to "stage 3" exposures (consisting, as reported above, of the current scope of non-performing assets). With regard to non-performing loans in particular, it should be noted that, despite the fact that the definition of credit-impaired financial assets contained in IFRS 9 compared to the previous standard is substantially the same, the methods of calculation of the lifetime ECL have methodological repercussions also for the purposes of the measurements to be carried out in this segment, mainly in relation to the following aspects:
- the inclusion of forward-looking information, such as the information on the macroeconomic scenarios, on the recovery estimates and times, and on the likelihood of migration into worse classes, as well as information that can have an influence on the value of the collateral or the expected recovery time;
- the consideration of alternative recovery scenarios, such as the sale of the credit assets, in connection with possible disposals of parts of the non-performing portfolio, in relation to company objectives of reduction of the non-performing assets, to which a probability of realisation must be assigned, to be considered within the overall measurement.

With regard to the inclusion of forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to current economic conditions, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described. In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding bad loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management and with a target of reaching an NPL ratio of 10.5% at the end of 2019.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors on 6 February this year, identified significant de-risking as one of its key priorities aimed at enabling the Group to the reduce its level of gross non-performing loans to around 6% of the loan portfolio in 2021. To this end, a new "NPL Plan" was prepared and sent to the ECB that envisages, in addition to strengthening activities aimed at the internal recovery of positions, the sale of a significant portfolio of bad loans. The combination of the sales scenario with the ordinary recovery scenario through internal management therefore responds to the requests received from the Supervisory Authorities.

The above change in strategy envisaged by the new plan was taken into consideration for the first-time adoption of IFRS 9, which, as already noted, has introduced significant changes with respect to IAS 39. In particular, IAS 39 stated (see paragraph 59): *"A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset....omitted....Losses expected as a result of future events, no matter how likely, are not recognised"*.
The approach required by IFRS 9 is significantly different; paragraph 5.5.17 states that "*An entity shall measure expected credit losses of a financial instrument in a way that reflects*:
a) *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
b) *the time value of money;*

c) *reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions*".

In particular, IFRS 9 defines loss as the difference between all the contractual cash flows due and the cash flows an entity would expect to receive. Therefore, whereas for IAS 39 the source of the cash flows is limited to the cash flows coming from the debtor or from the guarantee as envisaged by the contractual terms, under IFRS 9 the source of the cash flows is not limited to the cash flows based on the contractual terms but includes all the cash flows that will flow to the creditor.

It follows that, if the entity plans to sell a non-performing loan to a third party both for the purpose of maximising cash flows and in relation to a specific non-performing loan management strategy, the ECL estimate will also reflect the existence of the sale scenario and therefore the cash flows arising from that sale.

IFRS 9 also allows possible sales scenarios to be considered, which therefore must be weighted with the others considered more likely. In contrast, under IAS 39, realisation through the sale of a loan can be considered (as the sole scenario) only if it is reasonably certain at the reporting date, because it is an expression of a management action already formalised at that date.

In addition to the above, the TRG – regarding the impairment of financial instruments – also confirmed that the cash flows from the sale of a defaulted loan must be considered in the estimate of the impairment losses provided that:

- the sale of the loan is one of the methods of recovery that the entity expects to use;
- the entity has no legal or operational limitations that affect its ability to sell the loan;
- the entity has reasonable and adequate information to support the disposal scenario.

The TRG also notes that:

- to support the entity's expectations that sales to third parties represent a method of recovery in the event of default, both the entity's past practice and future expectations must be considered, and that the latter may differ from the previously observed practice;
- to determine the recoverable amount, the relevant market information relating to loan sale prices should be considered;
- the inclusion of amounts recovered through sale in the estimation of the expected losses is appropriate for financial instruments classified in all stages (1, 2 and 3); this is because, when measuring expected credit losses, IFRS 9 requires all possible scenarios to be considered regardless of the stage in which the loan is classified.

Accordingly, the various recovery strategies envisaged by the Group have been reflected in the measurement of the loans, in accordance with the IFRS 9 impairment model, to align them proportionally to a likelihood of sale defined in line with the Group's NPL plan.

Consequently, the "ordinary" scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy. As a result, in order to determine the total expected loss of the exposures, for a defined perimeter of bad loans that have the characteristics of disposability, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from sale, estimated based on market valuations carried out by an external expert, have been weighted according to the portion of the portfolio destined for sale, envisaged by the NPL strategy, with respect to the total of the disposable portfolio.

In this context, the perimeter of disposable bad loans (amounting to approximately 24 billion euro, in terms of gross exposure, out of a total of 34 billion euro) was identified within the positions managed by the Loan Recovery Department, taking into account the following exclusion criteria:

- positions for which there are outstanding disputes or litigation (situations where the borrower has taken legal action against the bank to challenge the credit claims or the classification as bad loans);
- positions secured by credit guarantee consortia, because it is costly to precisely identify the guarantees securing the individual credit lines;
- positions issued by Italian banks to companies resident abroad, in view of the operational complexities arising from differences in regulations and operations with respect to the jurisdictions where the borrowers are located;
- securitised positions, because the securitisation structure needs to be dismantled, with the involvement of various stakeholders;
- positions with entities other than the usual households and business (e.g. non-profit organisations);
- pooled loans, to avoid the involvement of third parties in the sale process, and positions with third party funds or particular facilitations that make the sale process operationally costly.

In particular, the recoverable amount of disposable bad loans has been quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that management expects to sell, as identified in the NPL plan approved by the Board of Directors, and the percentage that management expects to keep in the portfolio. The "collection amount" was determined according to the ordinary methods adopted by the Group for the impairment of bad loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold (2 million euro) and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the "below-threshold" exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale was carried out by an external expert.

For completeness, please note that a specific Impairment Policy has been drawn up in accordance with the requirements of IFRS 9 and has been approved by the competent levels of governance.

Hedge Accounting

In the area of Hedge Accounting, the changes to the accounting rules relate solely to general hedging and are closely tied to the Group's choice to exercise the opt-in/opt-out option (i.e. the possibility of applying the criteria established by the new IFRS 9 rather than maintaining the previous criteria established by IAS 39). Based on the investigations conducted on the current management of hedging transactions, it has been decided to exercise the opt-out option upon FTA of IFRS 9. As a result, all types of hedging operations continue to be managed using the methods adopted in the past, in line with the provisions of IAS 39 (carve-out). The Group will consider whether to confirm this choice for the reporting periods after 2018.

Governance of the transition to the new standard

The Intesa Sanpaolo Group has initiated and conducted the implementation process for the new Standard based on a strong and solid Governance Project. Responsibility for the Project was divided between the Risk and Accounting functions, with the active involvement of representatives from all the departments affected, thanks to the establishment of a Steering Committee and a Business Committee responsible for approving the main project decisions.
The Board of Directors, the Risks Committee and the Management Control Committee were also involved, over the duration of the project, as part of the implementation process for the standard.
The process of determining and reporting the adjustments is governed by two sets of company regulations: the Impairment Policy (approved by the Risks Committee and the Board of Directors) which, together with the Group Accounting Rules, establishes the metrics and algorithms for the estimate of the expected impairment losses, and the Process Guidelines, which define the actions, conduct and controls of the organisational units involved in the process.
The process of determining the ECL on performing and non-performing loans has been amended and supplemented in accordance with the current Group Governance framework, in which the Chief Lending Officer area and the Capital Light Bank are responsible for determining the analytical impairment losses on non-performing loans, and the Chief Risk Officer area is responsible for measuring the expected losses on performing loans, using statistical methods, as well as additional non-analytical measurements of non-performing loans (e.g., scenario add-ons).
A fundamental step in the calculation of the expected losses is the definition of the expected scenarios. The base assumptions are defined by the Research Department in the same way as for the other entries of the financial statements (e.g., impairment of intangible assets) and in accordance with the assumptions of the Business Plan and the Budgets.
As mentioned above, the CRO area is responsible for developing and implementing the models required to calculate the credit losses. These models and methods are then subject to validation by the Validation Department, which is independent from both the business structures and the structures that develop and implement the models. The analyses by the Validation Department include the review of the documentation relating to the design and development of the models, the validation date, and the re-performance of the calculations.

The process of classification of the financial instruments was governed by updating the existing policies and drawing up the Business Model Rules, approved by the Risks Committee and the Board of Directors. These Rules define and set out the elements of the different business models used by the Intesa Sanpaolo Group and, together with the method for the performance of the SPPI test described in the Group Accounting Rules, they enable the establishment of a correct measurement approach for the financial assets. The Process Guidelines, on the other hand, define the procedures, actions, conduct and controls of the organisational units involved in the process.
In particular, with regard to loans, the credit approval processes have been strengthened to (i) manage the performance of the SPPI test, carried out based on the methods developed internally and included in the specific tool available to the business structures and (ii) identify the business model associated with each credit approval. The method used to determine the fair value of loans (input data, models, etc.) has been integrated into the Fair Value Policy, in accordance with the current Group Governance framework.
Lastly, with regard to investments in equity instruments, which the standard places by default under financial assets measured at fair value through profit or loss, the general criteria that should guide the possible exercise of the option of classification to fair value through other comprehensive income (without recycling to profit or loss) have been established and the related framework (processes, limits and decision-making powers, etc.) has been updated accordingly.

The effects of first-time adoption (FTA) of IFRS 9

As stated in the Accounting Policies paragraph relating to the Criteria for the preparation of the Interim Statement, the Group has decided to exercise the option, provided by IFRS 9, of not restating the comparative information for the IFRS 9 first-time adoption financial statements. In order to assign the 2017 comparative information to the accounting captions established in the new Circular 262 official financial statement layouts, the necessary reconciliations have been made, without changing the values, based on the criteria indicated in the Accounting Policies paragraph, which readers are referred to. This section shows the reconciliations of the accounting balances as at 1 January 2018 as a result of the application of the new classification and measurement rules required by IFRS 9.

Reconciliation between the Financial Statements published in the 2017 Annual Report and the IFRS 9 Financial Statements (new Circular 262) as at 1 January 2018 (reclassification of IAS 39 balances)

The schedules below show the reconciliations between the Financial Statements as per the 2017 Annual Report and the Financial Statements introduced by the new Bank of Italy Circular 262, which incorporates the adoption of the presentation criteria established by IFRS 9. In these statements, the accounting balances as at 31 December 2017 (figures determined according to IAS 39) are reconciled to the new accounting captions, according to the reclassifications required as a result of the new classification criteria introduced by IFRS 9 and based on the analyses carried out (already described above), but without the application of the new measurement criteria and, therefore, with the same amount of total assets and total liabilities.

Assets

(millions of euro)

IFRS9 \ IAS 39		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Investments in associates and companies subject to joint control	110. Technical insurance reserves reassured with third parties	120. Property and equipment	130. Intangible assets	140. Tax assets	150. Non-current assets held for sale and discontinued operations	160. Other assets	**TOTAL ASSETS**
10.	Cash and cash equivalents	9,353																**9,353**
20.	Financial assets measured at fair value through profit or loss		39,028	348	2,231	299	90	615										**42,611**
30.	Financial assets measured at fair value through other comprehensive income			206	59,219	379		5										**59,809**
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39		490	74,715	77,373				4									**152,582**
40.	Financial assets measured at amortised cost				3,518	496	71,967	410,108										**486,089**
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39						405	18										**423**
50.	Hedging derivatives								4,213									**4,213**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-204								**-204**
70.	Investments in associates and companies subject to joint control										678							**678**
80.	Technical insurance reserves reassured with third parties											16						**16**
90.	Property and equipment												6,678					**6,678**
100.	Intangible assets													7,741				**7,741**
110.	Tax assets														16,887			**16,887**
120.	Non-current assets held for sale and discontinued operations															627		**627**
130.	Other assets																9,358	**9,358**
TOTAL ASSETS		**9,353**	**39,518**	**75,269**	**142,341**	**1,174**	**72,462**	**410,746**	**4,217**	**-204**	**678**	**16**	**6,678**	**7,741**	**16,887**	**627**	**9,358**	**796,861**

Looking at the most significant reclassifications for the Banking Group, the application of the new classification and measurement rules for financial assets resulted in:

- the reclassification of part of the debt securities available for sale under IAS 39, of which 3,518 million euro was allocated to financial assets measured at amortised cost, following the change in the business model, and 555 million euro to financial assets measured at fair value through profit or loss, both due to the change in the business model and the failure to pass the SPPI test;
- the reclassification, due to the change in the business model, of investments held to maturity to financial assets measured at fair value through profit or loss for 299 million euro and to financial assets measured at fair value through other comprehensive income for 379 million euro;
- the reclassification, due to the change in the business model, of financial assets measured at fair value through profit or loss to financial assets measured at fair value through other comprehensive income for 206 million euro;
- the reclassification of units of UCIs classified as financial instruments available for sale under IAS 39, which, for an amount of 1,176 million euro, were reclassified to assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9;
- the reclassification of equities classified as financial instruments available for sale under IAS 39, of around 3,652 million euro, of which 3,152 million euro was classified under financial assets for which the option of designation at fair value through other comprehensive income (without recycling to profit or loss) has been irrevocably exercised and 500 million euro to financial assets mandatorily measured at fair value through profit or loss.

It is also noted that the reclassification of loans to banks and to customers into the portfolio of assets measured at fair value through profit or loss due to the failure to pass the SPPI test was marginal (705 million euro).

The reclassifications due to the application of IFRS 9 (i.e. due to business model and SPPI Test), were also accompanied by reclassifications due to the introduction of new official formats through the update of Bank of Italy Circular no. 262 of December 2017, as well as the reclassifications due to the addition of specific captions to report the figures relating to the financial assets and liabilities of the Group's insurance companies, which, as result of the adoption of the Deferral Approach already mentioned above, will continue to be measured in accordance with the provisions of IAS 39 until the entry into force of IFRS 17, scheduled for 2021.

With regard to the new Circular no. 262, in particular, there has been a change in the presentation of the financial assets, which instead of the previous captions Loans to customers, Loans to banks, Investments held to maturity, Financial assets available for sale, Financial assets measured at fair value through profit or loss and Financial assets held for trading, are now classified under the new captions Financial assets measured at fair value through profit or loss, Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost.

In relation to the adoption of the Deferral Approach, the following captions have been created in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular no. 262:

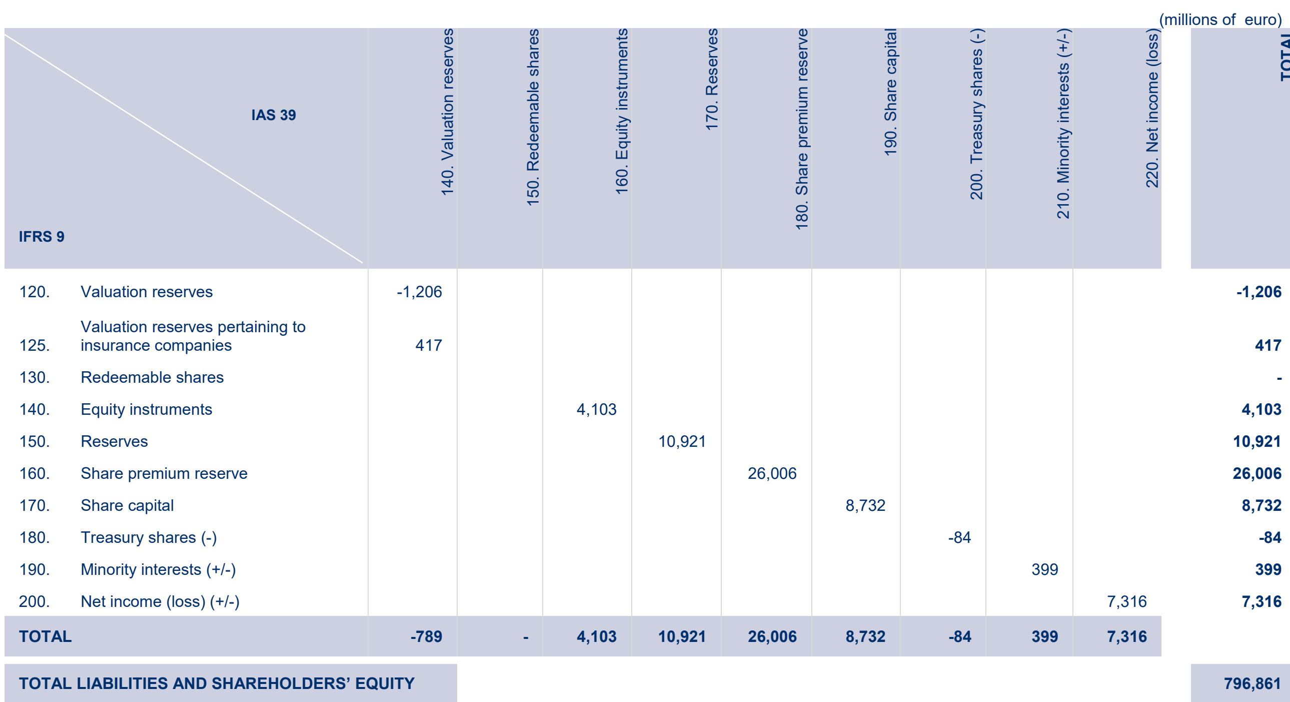
- Balance Sheet - Assets: “Caption 35. Financial assets pertaining to insurance companies measured at fair value in accordance with IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet - Assets: “Caption 45. Financial assets pertaining to insurance companies measured at amortised cost in accordance with IAS 39”, which includes investments held to maturity and loans to banks and customers, as defined in accordance with IAS 39.

Liabilities

(millions of euro)

IFRS 9 \ IAS 39		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	130. Technical reserves	TOTAL
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	99,989	323,386	92,985											**516,360**
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1	57	1,254											**1,312**
20.	Financial liabilities held for trading				41,218		238								**41,456**
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e))					3									**3**
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39				67	68,166									**68,233**
40.	Hedging derivatives						7,251								**7,251**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							478							**478**
60.	Tax liabilities								2,509						**2,509**
70.	Liabilities associated with non-current assets held for sale and discontinued operations									264					**264**
80.	Other liabilities										12,225				**12,225**
90.	Employee termination indemnities											1,410			**1,410**
100.	Allowances for risks and charges										349		5,481		**5,830**
110.	Technical reserves													82,926	**82,926**
TOTAL		**99,990**	**323,443**	**94,239**	**41,285**	**68,169**	**7,489**	**478**	**2,509**	**264**	**12,574**	**1,410**	**5,481**	**82,926**	

Shareholders' equity



(millions of euro)

IFRS 9 \ IAS 39		140. Valuation reserves	150. Redeemable shares	160. Equity instruments	170. Reserves	180. Share premium reserve	190. Share capital	200. Treasury shares (-)	210. Minority interests (+/-)	220. Net income (loss)	TOTAL
120.	Valuation reserves	-1,206									**-1,206**
125.	Valuation reserves pertaining to insurance companies	417									**417**
130.	Redeemable shares										**-**
140.	Equity instruments			4,103							**4,103**
150.	Reserves				10,921						**10,921**
160.	Share premium reserve					26,006					**26,006**
170.	Share capital						8,732				**8,732**
180.	Treasury shares (-)							-84			**-84**
190.	Minority interests (+/-)								399		**399**
200.	Net income (loss) (+/-)									7,316	**7,316**
TOTAL		**-789**	**-**	**4,103**	**10,921**	**26,006**	**8,732**	**-84**	**399**	**7,316**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY											**796,861**

With reference to financial liabilities, no significant reclassification impacts were recorded resulting from the transition to IFRS 9. For the sake of completeness, we note solely:

- the reclassification of some derivatives to the trading book, which were previously classified as hedging instruments, for which the hedging relationships were discontinued upon FTA because they were linked to financial instruments recorded in the balance sheet assets under financial assets measured at fair value through profit or loss in accordance with IFRS 9;
- the reclassification of the allowances for credit risk for loan commitments and financial guarantees given that, under the previous version of Bank of Italy Circular no. 262, were allocated to Other liabilities and that must be recognised under Allowances for risks and charges under the new instructions.

For the Liabilities and Shareholders' Equity captions, the reclassifications included those due to the new official formats introduced by the aforementioned Circular no. 262 and the adoption of the Deferral Approach.

With regard to the new official formats introduced by the Bank of Italy, in addition to the changes relating to the presentation of cumulative adjustments to guarantees given and loan commitments described above, the previous captions relating to amounts due to banks, amounts due to customers and securities issued are now all included under the caption "10. Financial liabilities measured at amortised cost".

In relation to the adoption of the Deferral Approach, the following captions have also been created in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular no. 262:

- Balance Sheet - Liabilities: "Caption 15. Financial liabilities pertaining to insurance companies measured at amortised cost in accordance with IAS 39", which includes amounts due to banks, amounts due to customers and securities issued, as defined in accordance with IAS 39;
- Balance Sheet - Liabilities: "Caption 35. Financial liabilities pertaining to insurance companies measured at fair value in accordance with IAS 39", which includes financial liabilities held for trading, financial liabilities measured at fair value and any derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet - Shareholders' Equity: "Caption 125. Valuation reserves pertaining to insurance companies", which includes valuation reserves on financial assets available for sale, the shadow accounting effects and the related tax impacts.

Reconciliation between the Balance Sheet as at 31 December 2017 (which incorporates the new IFRS 9 presentation rules) and the Balance Sheet as at 1 January 2018 (which incorporates the new IFRS 9 measurement and impairment rules)

The schedules below show the Reconciliation between the Balance Sheet as at 31 December 2017 (former IAS 39), which incorporates the reclassification required by the classification rules established by IFRS 9, described above, and the Balance Sheet as at 1 January 2018 (IFRS 9). In these schedules, the accounting balances as at 31 December 2017 (amounts determined in accordance with IAS 39) have been modified as a result of the application of the new measurement and impairment rules, to determine the IFRS 9 compliant opening balances.

Assets

(millions of euro)

	Captions	31.12.2017 (a)	Effect of transition to IFRS 9 (b)		01.01.2018 (c) = (a) + (b)
			Classification and measurement	Impairment	
10.	Cash and cash equivalents	9,353			9,353
20.	Financial assets measured at fair value through profit or loss	42,611	-52		42,559
30.	Financial assets measured at fair value through other comprehensive income	59,809	51		59,860
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582			152,582
40.	Financial assets measured at amortised cost	486,089	243	-4,137	482,195
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423			423
50.	Hedging derivatives	4,213			4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204			-204
70.	Investments in associates and companies subject to joint control	678			678
80.	Technical insurance reserves reassured with third parties	16			16
90.	Property and equipment	6,678			6,678
100.	Intangible assets	7,741			7,741
110.	Tax assets	16,887	-47	1,178	18,018
120.	Non-current assets held for sale and discontinued operations	627			627
130.	Other assets	9,358			9,358
	TOTAL ASSETS	**796,861**	**195**	**-2,959**	**794,097**

Classification and measurement

The different classification of financial assets in the new categories required by IFRS 9 and the consequent different measurement metrics had a positive impact (before tax) on the Consolidated Shareholders' Equity of the Intesa Sanpaolo Group of 242 million euro, as detailed below.

The adjustment to the carrying amount of the financial assets resulting from the change in the business model, mainly attributable to the debt securities portfolio, had a total gross positive impact on Consolidated Shareholders’ Equity of 262 million euro. This effect was due to the following factors:

- reclassification of financial assets available for sale to a Hold to Collect business model, with consequent recalculation of the carrying amount and derecognition of the AFS reserve (+156 million euro);
- the positive effect for debt securities, which in 2008/2009, following the amendment to IAS 39, were reclassified from the AFS/HFT to the L&R portfolios, generating a negative shareholder's equity reserve. Having confirmed the Hold to Collect business model on FTA, this negative reserve was written off against the book value of these assets, generating a positive impact of 87 million euro;
- reclassification of financial assets measured at amortised cost to a Hold to Collect and Sell business model, with consequent recalculation of their carrying amount (fair value) and recognition of the changes in fair value since origination in the valuation reserve (+51 million euro);
- reclassification of financial assets measured at amortised cost to a Trading business model and consequent recalculation of their carrying amount (fair value), with recognition of the changes in fair value since the initial recognition date for these assets (-32 million euro) in a specific retained earnings reserve (FTA Reserve).

The fair value adjustment of the financial assets following the failure to pass the SPPI test resulted in a gross negative impact on Consolidated Shareholders' Equity of 20 million euro, mainly relating to debt securities.

Impairment

The application of the new impairment rules (expected credit losses) on the financial assets measured at amortised cost (on-balance sheet exposures) resulted in a negative impact of 4,137 million euro, as detailed below:

- additional value adjustments to on-balance sheet performing loans of 1,136 million euro attributable to (i) the allocation of part of the performing portfolio to Stage 2, based on the stage allocation criteria defined, with the consequent need to calculate the lifetime expected credit loss for the financial assets and (ii) the inclusion of forward-looking parameters resulting from future macroeconomic scenarios within the expected credit losses calculation. The first-time adoption impact was almost entirely due to the increase in adjustments to positions classified as stage 2, whose total provisions trebled;
- additional value adjustments to performing securities of 95 million euro, essentially attributable to the allocation of a portion of the portfolio to Stage 2, with the consequent need to calculate the lifetime expected credit loss for the financial assets;
- additional value adjustments to non-performing loans of 2,906 million euro, mainly due to the inclusion of forward-looking parameters, resulting from the consideration of future macroeconomic scenarios for all the NPL categories, within the expected credit losses calculation, and the inclusion of the sale scenario – envisaged by the company targets of reduction of the non-performing assets – for a part of the bad loans portfolio that has characteristics of disposability. The impact of the additional adjustments consisted of 2,063 million euro for bad loans and 843 million euro for positions classified as unlikely-to-pay loans and past due loans.

Liabilities and shareholders' equity

(millions of euro)

	Captions	31.12.2017 (a)	Effect of transition to IFRS 9 (b)	01.01.2018 (c) = (a) + (b)
10.	Financial liabilities measured at amortised cost	516,360		516,360
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312		1,312
20.	Financial liabilities held for trading	41,456		41,456
30.	Financial liabilities designated at fair value	3		3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233		68,233
40.	Hedging derivatives	7,251		7,251
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478		478
60.	Tax liabilities	2,509		2,509
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264		264
80.	Other liabilities	12,225		12,225
90.	Employee termination indemnities	1,410		1,410
100.	Allowances for risks and charges	5,830	186	6,016
110.	Technical reserves	82,926		82,926
120.	Valuation reserves	-1,206	328	-878
125.	Valuation reserves pertaining to insurance companies	417		417
130.	Redeemable shares	-		-
140.	Equity instruments	4,103		4,103
150.	Reserves	10,921	-3,265	7,656
160.	Share premium reserve	26,006		26,006
170.	Share capital	8,732		8,732
180.	Treasury shares (-)	-84		-84
190.	Minority interests (+/-)	399	-13	386
200.	Net income (loss) (+/-)	7,316		7,316
	TOTAL LIABILITIES	**796,861**	**-2,764**	**794,097**

On the liabilities side, there were additional adjustments to the value of guarantees given and loan commitments (irrevocable and revocable) of 186 million euro, recognised under allowances for risks and charges. This increase was due to the

application of the new rules on impairment (including the forward-looking component), as well as the enlargement of the scope of application, which also includes revocable commitments.

Lastly, for Shareholders' Equity, there was an improvement of 328 million euro in the valuation reserves and the recognition of a negative retained earnings reserve (the FTA reserve) of 3,265 million euro (with a total negative effect of 2,937 million euro, including tax, on Group Shareholders' Equity).

Reconciliation between IAS 39 Shareholders' Equity and IFRS 9 Shareholders' Equity

The schedule below shows the reconciliation between the Consolidated Shareholders' Equity as at 31 December 2017, as presented in the 2017 Annual Report, and the opening Consolidated Shareholders' Equity as at 1 January 2018, after the transition to IFRS 9, which reflects the effects described above.

(millions of euro)

	Effect of transition to IFRS9
IAS 39 Shareholders' Equity - 31.12.2017	**56,604**
of which: Group	56,205
of which: minority interests	399
CLASSIFICATION AND MEASUREMENT	
Adjustment to carrying amount of financial assets resulting from change in business model	**262**
Fair value adjustment of financial assets failing the SPPI test	**-20**
Reclassification from valuation reserves to retained earnings reserves:	**-**
net change in valuation reserves due to application of new classification and measurement rules	74
net change in retained earnings reserves due to application of new classification and measurement rules	-74
IMPAIRMENT	
Application of the new (ECL) impairment model to loans measured at amortised cost:	**-4,042**
performing (Stage 1 and 2)	-1,136
non-performing (Stage 3)	-2,906
Application of the new (ECL) impairment model to guarantees given and loan commitments (irrevocable and revocable)	**-186**
Application of the new (ECL) impairment model to debt securities measured at amortised cost	**-95**
performing (Stage 1 and 2)	-95
non-performing (Stage 3)	-
Reclassification from valuation reserves to retained earnings reserves:	**-**
net change in valuation reserves due to impairment of financial assets designated at fair value through other comprehensive income	59
net change in retained earnings reserves due to impairment of financial assets designated at fair value through other comprehensive income	-59
Tax effect	**1,131**
Allocation of IFRS 9 transition effects to minority interests	**-13**
Total IFRS 9 transition effects at 1.1.2018	**-2,937**
IFRS 9 Shareholders' Equity - 1.1.2018	**53,654**
of which: Group	53,268
of which: minority interests	386

In particular, reclassifications have been made to the valuation reserves and retained earnings reserve (FTA reserve), both as a result of the application of the new classification and measurement criteria and the application of the new impairment model.

With regard to the former, reclassifications amounting to 74 million euro were made, with no impact on Consolidated Shareholders' Equity, as a result of:
- reclassification of debt securities classified as financial instruments available for sale under IAS 39 to a Trading business model, with the reallocation of the former AFS reserve (negative amount of 181 million euro) to the retained earnings reserve;
- reclassification of investment fund units, allocated to financial instruments available for sale under IAS 39, to assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9, with reallocation of the former AFS reserve (positive amount of 145 million euro) to the retained earnings reserve;
- reclassification of equities classified as financial instruments available for sale under IAS 39 to financial assets mandatorily measured at fair value through profit or loss, with reallocation of the former AFS reserve (negative amount of 38 million euro) to the retained earnings reserve.

For the debt securities classified as “Financial assets measured at fair value through other comprehensive income”, the application of the new impairment rules resulted in an increase of 59 million euro in the valuation reserve and a corresponding negative effect on retained earnings reserve, with no impact on Consolidated Shareholders' Equity.

The accounting effects described above also had an impact on the regulatory capital and prudential ratios.
In particular:
- the increase in the impairment reduces the CET 1 through the reduction of the shareholders’ equity;
- the increase in the impairment on the IRB exposures eliminates the previous shortfall producing an excess reserve;
- the tax effect generates DTAs that are deducted from the CET 1 as a result of the exceeding of the threshold, when there is no requirement under the local tax regulations for their deduction already in the current year;
- the RWAs on the standard exposures are reduced as a result of the increase in the impairment.

As a result, the impact of the first-time adoption of IFRS 9 on the CET 1 of the Intesa Sanpaolo Group, determined also taking into account the shortfall, resulting from the prudential expected losses in excess of the book value adjustments, amounted to:
- 102 bps in the fully loaded approach;
+ 2 bps with phase in, i.e., with the application of the provisions of Article 473a of the Capital Requirements Regulation “CRR”.

The table below shows the breakdown of the impacts on the prudential ratios:

(millions of euro)

Capital resources	Regulatory capital as at 31.12.2017 including regulatory adjustments (grandfathering)	Regulatory capital as at 1.1.2018 with remaining regulatory adjustments pursuant to Basel 3	IFRS 9 - Fully Loaded		IFRS 9 - 95% Phased-in	
			FTA Impact as at 1.1.2018	Amount as at 1.1.2018	FTA Impact as at 1.1.2018	Amount as at 1.1.2018
Shareholders’ equity - Group	56,205	56,205	-2,937	53,268	2,702	55,970
Excess expected losses over adjustments (shortfall)	-298	-298	298	-	-	-
Regulatory capital adjustments and deductions	-17,856	-18,937	-498	-19,435	477	-18,958
Common Equity Tier 1 Capital (CET1)	**38,051**	**36,970**	**-3,137**	**33,833**	**3,179**	**37,012**
Additional Tier 1 Capital (AT1)	5,414	5,436	-	5,436	-	5,436
Tier 1 Capital (T1 = CET1 + AT1)	**43,465**	**42,406**	**-3,137**	**39,269**	**3,179**	**42,448**
Excess adjustments over expected losses (excess reserve)	176	176	679	855	-855	-
Other Tier 2 Capital items	7,732	8,035	-	8,035	-	8,035
Tier 2 Instruments (T2)	**7,908**	**8,211**	**679**	**8,890**	**-855**	**8,035**
Total Capital (TC = T1 + T2)	**51,373**	**50,617**	**-2,458**	**48,159**	**2,324**	**50,483**
Risk-Weighted Assets (RWA)	**286,825**	**285,893**	**-1,918**	**283,975**	**1,896**	**285,871**
Common Equity Tier 1 Capital / Risk-Weighted Assets (CET1 ratio)	**13.27%**	**12.93%**		**11.91%**		**12.95%**

Consolidated financial statements - Consolidated balance sheet

(millions of euro)

Assets		01.01.2018
10.	Cash and cash equivalents	9,353
20.	Financial assets measured at fair value through profit or loss	42,559
	a) financial assets held for trading	*39,651*
	b) financial assets designated at fair value	*214*
	c) other financial assets mandatorily measured at fair value	*2,694*
30.	Financial assets measured at fair value through other comprehensive income	59,860
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582
40.	Financial assets measured at amortised cost	482,195
	a) due from banks	*72,108*
	b) loans to customers	*410,087*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423
50.	Hedging derivatives	4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204
70.	Investments in associates and companies subject to joint control	678
80.	Technical insurance reserves reassured with third parties	16
90.	Property and equipment	6,678
100.	Intangible assets	7,741
	of which:	
	- goodwill	4,056
110.	Tax assets	18,018
	a) current	*4,802*
	b) deferred	*13,216*
120.	Non-current assets held for sale and discontinued operations	627
130.	Other assets	9,358
Total assets		**794,097**

(millions of euro)

Liabilities and Shareholders' Equity		01.01.2018
10.	Financial liabilities measured at amortised cost	516,360
	a) due to banks	*99,989*
	b) due to customers	*323,386*
	c) securities issued	*92,985*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312
20.	Financial liabilities held for trading	41,456
30.	Financial liabilities designated at fair value	3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233
40.	Hedging derivatives	7,251
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478
60.	Tax liabilities	2,509
	a) current	*364*
	b) deferred	*2,145*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264
80.	Other liabilities	12,225
90.	Employee termination indemnities	1,410
100.	Allowances for risks and charges	6,016
	a) commitments and guarantees given	*535*
	b) post-employment benefits	*1,104*
	c) other allowances for risks and charges	*4,377*
110.	Technical reserves	82,926
120.	Valuation reserves	-878
125.	Valuation reserves pertaining to insurance companies	417
130.	Redeemable shares	-
140.	Equity instruments	4,103
150.	Reserves	7,656
160.	Share premium reserve	26,006
170.	Share capital	8,732
180.	Treasury shares (-)	-84
190.	Minority interests (+/-)	386
200.	Net income (loss) (+/-)	7,316
Total liabilities and shareholders' equity		**794,097**

A breakdown is provided below of the credit quality of the exposures at amortised cost, before and after adoption of IFRS 9.

Composition and stage allocation of the exposures at amortised cost subject to IFRS 9 impairment testing and related ECL

(millions of euro)

On-balance sheet exposures (Amortised cost)	IFRS 9											
	Gross exposure				Total adjustments				Net exposure			
	STAGE				STAGE				STAGE			
	1	2	3	TOTAL	1	2	3	TOTAL	1	2	3	TOTAL
Loans to Customers	321,494	51,684	51,895	**425,073**	-844	-1,573	-29,481	**-31,898**	320,650	50,111	22,414	**393,175**
Due from Banks	70,152	1,445	4	**71,601**	-30	-4	-4	**-38**	70,122	1,441	0	**71,563**
Debt securities	13,488	4,088	44	**17,620**	-79	-82	-2	**-163**	13,409	4,006	42	**17,457**
TOTAL	**405,134**	**57,217**	**51,943**	**514,294**	**-953**	**-1,659**	**-29,487**	**-32,099**	**404,181**	**55,558**	**22,456**	**482,195**

	IAS 39								
	Gross exposure			Total adjustments			Net exposure		
	Performing	Non-performing	TOTAL	Performing	Non-performing	TOTAL	Performing	Non-performing	TOTAL
Loans to Customers	373,457	52,030	**425,487**	-1,299	-26,607	**-27,906**	372,158	25,423	**397,581**
Due from Banks	71,858	4	**71,862**	-62	-4	**-66**	71,796	0	**71,796**
Debt securities	14,034	43	**14,077**	-244	-2	**-246**	13,790	41	**13,831**
TOTAL	**459,349**	**52,077**	**511,426**	**-1,605**	**-26,613**	**-28,218**	**457,744**	**25,464**	**483,208**

For the majority of the exposures (around 90%), the classification in Stage 2 is due to the increase (above the various thresholds established) in the lifetime PD since origination. The remainder is due to the classification in Stage 2 resulting from the presence of automatic classification triggers (mainly, more than 30 days past due and forborne positions). In addition, around a third of the positions classified as Stage 2 pertain to short-term positions (less than one year) with consequent measurement through the expected credit loss over a congruent period.

The schedule below shows the reconciliation between the financial statements in relation to the balance sheet captions (Assets and Liabilities) established by the new Bank of Italy Circular no. 262 and the corresponding reclassified financial statements, reclassified Balance Sheet, and the new credit quality table for the captions of the reclassified statement.

Reconciliation between the (Circular 262) Balance Sheet and the Reclassified Balance Sheet

(millions of euro)

Assets		01.01.2018
Due from banks		71,576
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	71,562
Caption 20a (partial)	Financial assets held for trading - Due from banks	-
Caption 20b (partial)	Financial assets designated at fair value - Due from banks	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	14
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-
Loans to customers		**399,463**
Loans to customers measured at amortised cost		399,076
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	393,176
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,900
Loans to customers designated at fair value through other comprehensive income and through profit or loss		387
Caption 20a (partial)	Financial assets held for trading - Loans to customers	-
Caption 20b (partial)	Financial assets designated at fair value - Loans to customers	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Loans to customers	387
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	-
Financial assets measured at amortised cost which do not constitute loans		11,557
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	546
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	11,011
Financial assets designated at fair value through profit or loss		42,158
Caption 20a (partial)	Financial assets held for trading	39,651
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	214
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	2,293
Financial assets designated at fair value through other comprehensive income		59,860
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	59,860
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		152,582
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,582
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		423
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423
Investments in associates and companies subject to joint control		678
Caption 70	Investments in associates and companies subject to joint control	678
Property, equipment and intangible assets		14,419
Caption 90	Property and equipment	6,678
Caption 100	Intangible assets	7,741
Tax assets		18,018
Caption 110	Tax assets	18,018
Non-current assets held for sale and discontinued operations		627
Caption 120	Non-current assets held for sale and discontinued operations	627
Other assets		22,736
Caption 10	Cash and cash equivalents	9,353
Caption 50	Hedging derivatives	4,213
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	-204
Caption 80	Technical insurance reserves reassured with third parties	16
Caption 130	Other assets	9,358
Total assets		**794,097**

(millions of euro)

Liabilities			01.01.2018
Due to banks at amortised cost			99,989
	Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	99,989
Due to customers at amortised cost and securities issued			416,371
	Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	323,386
	Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	92,985
Financial liabilities held for trading			41,456
	Caption 20	Financial liabilities held for trading	41,456
Financial liabilities designated at fair value			3
	Caption 30	Financial liabilities designated at fair value	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39			1,312
	Caption 15	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39			68,233
	Caption 35	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233
Tax liabilities			2,509
	Caption 60	Tax liabilities	2,509
Liabilities associated with non-current assets held for sale and discontinued operations			264
	Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	264
Other liabilities			19,954
	Caption 40	Hedging derivatives	7,251
	Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	478
	Caption 80	Other liabilities	12,225
Technical reserves			82,926
	Caption 110	Technical reserves	82,926
Allowances for risks and charges			7,426
	Caption 90	Employee termination indemnities	1,410
	Caption 100 b)	Allowances for risks and charges - Post-employment benefits	1,104
	Caption 100 c)	Allowances for risks and charges - Other allowances	4,377
of which allowances for commitments and financial guarantees given			
	Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	535
Share capital			8,732
	Caption 170	Share capital	8,732
Reserves			33,578
	Caption 130	Redeemable shares	-
	Caption 150	Reserves	7,656
	Caption 160	Share premium reserve	26,006
	- Caption 180	Treasury shares	-84
Valuation reserves			-878
	Caption 120	Valuation reserves	-878
Valuation reserves pertaining to insurance companies			417
	Caption 125	Valuation reserves pertaining to insurance companies	417
Equity instruments			4,103
	Caption 140	Equity instruments	4,103
Minority interests			386
	Caption 190	Minority interests	386
Net income (loss)			7,316
	Caption 200	Net income (loss) (+/-)	7,316
Total liabilities and shareholders' equity			**794,097**

Reclassified Consolidated Balance Sheet

(millions of euro)

Assets	**01.01.2018**
Due from banks	71,576
Loans to customers	399,463
Loans to customers measured at amortised cost	*399,076*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*387*
Financial assets measured at amortised cost which do not constitute loans	11,557
Financial assets designated at fair value through profit or loss	*42,158*
Financial assets designated at fair value through other comprehensive income	59,860
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,582
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423
Investments in associates and companies subject to joint control	678
Property, equipment and intangible assets	14,419
Tax assets	18,018
Non-current assets held for sale and discontinued operations	627
Other assets	22,736
Total Assets	**794,097**

Liabilities	**01.01.2018**
Due to banks at amortised cost	99,989
Due to customers at amortised cost and securities issued	416,371
Financial liabilities held for trading	41,456
Financial liabilities designated at fair value	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233
Tax liabilities	2,509
Liabilities associated with non-current assets held for sale and discontinued operations	264
Other liabilities	19,954
Technical reserves	82,926
Allowances for risks and charges	7,426
of which allowances for commitments and financial guarantees given	*535*
Share capital	8,732
Reserves	33,578
Valuation reserves	-878
Valuation reserves pertaining to insurance companies	417
Equity instruments	4,103
Minority interests	386
Net income (loss)	7,316
Total liabilities and shareholders' equity	**794,097**

Credit quality

(millions of euro)

Captions	31.12.2017				Reclassifications and adjustments				01.01.2018			
	Gross exposure	Total adjustments	Net exposure	% coverage	Gross exposure reclassifications	Adjustments reclassifications	Reclassifications due to insurance deferral	FTA adjustments	Gross exposure	Total adjustments	Net exposure	% coverage
Bad loans	34,192	-21,567	12,625	63.1	-	-		-2,063	34,192 (*)	-23,630 (*)	10,562 (*)	69.1 (*)
Unlikely to pay	17,406	-4,946	12,460	28.4	-16	-14		-838	17,390	-5,798	11,592	33.3
Past due loans	475	-96	379	20.2	-	-		-5	475	-101	374	21.3
Non-Performing Loans	**52,073**	**-26,609**	**25,464**	**51.1**	**-16**	**-14**		**-2,906**	**52,057**	**-29,529**	**22,528**	**56.7**
Non-Performing Loans in Stage 3 (subject to impairment)	*XXXXX*	*XXXXX*	*XXXXX*						*51,939*	*-29,483*	*22,456*	*56.8*
Non-performing loans designated at fair value through profit or loss	*XXXXX*	*XXXXX*	*XXXXX*						*118*	*-46*	*72*	*39.0*
Performing loans	***373,457***	***-1,299***	***372,158***	**0.4**	**39**	***46***	**-3**	**-1,164**	**373,493**	**-2,417**	**371,076**	**0.6**
Stage 2	*XXXXX*	*XXXXX*	*XXXXX*					*-1,039*	51,684	-1,573	50,111	3.0
Stage 1	*XXXXX*	*XXXXX*	*XXXXX*					*-125*	321,494	-844	320,650	0.3
Performing loans designated at fair value through profit or loss	*XXXXX*	*XXXXX*	*XXXXX*						*315*		*315*	*n.a.*
Performing loans represented by securities	***13,313***	***-189***	***13,124***	**1.4**	***-7,385 (**)***	***223***	***-15***	***-88***	**5,913**	***-54***	**5,859**	**0.9**
Stage 2	*XXXXX*	*XXXXX*	*XXXXX*		-				662	-23	639	3.5
Stage 1	*XXXXX*	*XXXXX*	*XXXXX*		-				5,251	-31	5,220	0.6
Loans held for trading	*XXXXX*	*XXXXX*	*XXXXX*		-				-		-	
Total loans to customers	**438,843**	**-28,097**	**410,746**		**-7,362**	**255**	**-18**	**-4,158**	**431,463**	**-32,000**	**399,463**	

(*) Of which disposable bad loans:
- gross exposure: 23,325 million euro
- total adjustments: -16,880 million euro
- net exposure: 6,445 million euro
- coverage: 72.4%

(**) Of which 7,368 million euro relating to securities of financial companies and governments classified as Loans & Receivables in the 2017 Financial Statements.

Executive summary

The macroeconomic context

The economy and the financial and currency markets

The long period of global economic growth continued at a moderate pace in the first half of 2018. Economic indicators showed signs of a weakening, particularly in the first quarter, and growth in global trade flows also slowed significantly. Growing concerns have arisen due to the protectionist offensive by the United States. Safeguard duties have already been imposed on steel and aluminium imports, as well as a wider range of Chinese imports. In addition, the Trump administration is threatening to raise barriers against motor vehicle imports, as well as against an even wider range of goods purchased from China, and is also calling into question multilateral dispute settlement systems such as the WTO. The countries affected reacted with retaliatory measures, in an escalation that in the long term could accentuate the slowdown in global economic growth and put a brake on business investment. Negotiations on the UK's exit from the European Union did not record any decisive developments, which means the risk of a disorderly UK exit from 29 March 2019, with negative effects on trade in Europe, has not yet been averted.
For the time being, the US economy is experiencing robust growth. In the second quarter, GDP growth rose to 2.8% yoy. Domestic demand is being driven by the short-term effects of the tax reform and continued favourable fiscal conditions. Unemployment fell to around 4%, but signs of wage pressure were still confined to the more highly qualified professions. Inflation returned to above 2%, but is still far from being a concern for the Federal Reserve. The central bank has continued to gradually increase official rates, raising twice its Fed funds target rate by a total of 50 basis points and continuing to reduce the re-investment of maturities in its securities portfolio.
The slowdown in growth was quite sharp in the Eurozone, also affected by weather-related and calendar effects at the beginning of the year. The annual growth rate slowed in the second quarter to 2.1% yoy from 2.5% yoy in the first quarter. At this pace, positive labour market developments are continuing to reduce unemployment, which fell to 8.3% in the two-month period May-June. Inflation rose to 2.1% in July, driven up by higher energy prices, without which, however, it remained limited to 1.4%. In June, the European Central Bank announced its intention to end its asset purchase programme (APP) at the end of December, after a reduction in the fourth quarter to 15 billion euro per month. The ECB also indicated that it expects official rates to remain unchanged at least through the summer 2019. For the time being, short-term interest rates are still negative. The 10-year Bund yield peaked at 0.76% in February, when the market was already expecting official interest rate rises in spring 2019. Subsequently, medium- and long-term market rates fell back to their December 2017 lows.
The trend in German interest rates also reflects the significant financial tensions that characterised Italian debt in the two-month period of May-June, coinciding with the negotiations for the formation of the new government. In May, spreads with German debt rose sharply on all maturities, peaking at 290 basis points for the 10-year maturity period. On 29 May, in conjunction with end-month auctions characterised by low demand, short-term spreads were even higher than long-term spreads, which is typical in exceptional periods of financial stress. Financial tensions reflected investor concerns about the new government's willingness to keep public debt on a downward path. The Minister of the Economy and Finance's reassurances that debt reduction was still a priority subsequently brought risk premiums down from the highs reached, but levels remain well above the January-April average and are consistent with a risk of a downgrade in the country's credit rating.
Italy's real economy continued to grow, but GDP increase slowed to 1.4% yoy in the first quarter and 1.1% in the second quarter, according to preliminary ISTAT estimates. In early 2018, industrial production varied little, with business confidence indicators having fallen from their peak in this cycle and international trade having suffered a sharp slowdown. Also in Italy, these dynamics may be partly distorted by temporary factors. Economic surveys forecast the further slowdown that occurred in the second quarter. Industrial production, which grew by 2.1% yoy in May, also contributed little to GDP growth in the second quarter. The current pace of economic growth has been sufficient to ensure a further fall in the unemployment rate, to below 11% (10.9% in June). There was a rise in inflation in the first half, particularly for high-frequency goods and energy, but the year-on-year change in the consumer price index was still small (1.5% in July).
On the foreign exchange markets, the euro initially strengthened against the dollar, reaching highs of 1.25 in February and then fell back to levels even lower than those at the beginning of the year, between 1.15 and 1.18. From March to April, the euro also temporarily strengthened against the Swiss franc, reaching almost 1.20. It then returned to its level at the beginning of the year, closing the first half at 1.16.

In the international equity markets, the first half of 2018 saw a progressive increase in volatility, in a situation of greater investor aversion to risk, and with performances of the indices either unchanged or negative as a whole compared to the beginning of the year, with a few exceptions.
The factors driving the stock market in the first half included the resilience of the growth in the advanced economies, although numerous indicators in the Eurozone showed that the economic growth may have already gone past its peak. In addition, the recent seasons of company results in the Eurozone (4Q17 and 1Q18) provided positive signals to investors, with several results above expectations and the frequent confirmation or improvement of guidance for the current year.
Exchange rates and commodity prices, particularly for energy, had a negative impact. The intensification of tensions in international trade between the United States and China, and the consequent imposition of duties, also put a brake on economic growth, which is likely to continue in the second half of the year. Political tensions resulting from the formation of the new government in Italy further accentuated volatility in the last few weeks of the semester, triggering a correction in share prices, which was more marked in the financial sector.

The Euro Stoxx index closed the half year down by 2.2%, the performance of the CAC 40 remained substantially flat (+0.2%) at the end of the period, while the performance of the Dax 30 was below the main Eurozone benchmarks (-4.7%), in line with the IBEX 35, which fell by 4.2%. Outside the Eurozone, the Swiss SMI market index went sharply down (-8.2%), while the United Kingdom's FTSE 100 index decreased slightly at the end of the half year (-0.7%).
In the US equity market, the S&P 500 index posted an increase of +1.7%, while the Nasdaq Composite technology stocks index performed even better at +8.8%. The main equity markets in Asia went negative: the Nikkei 225 index closed the half year at -2.0%, while the Chinese benchmark index SSE A-Share fell even further (-13.9%).
The Italian stock market recorded a slightly negative performance at the end of the period, but with high volatility during the half year, particularly in the banking sector (which represents 24% of the FTSE MIB index). During the period, there were positive signs regarding the trend of company profits for 2018, offset by growing uncertainty following the general elections held in March.
The FTSE MIB index ended the first half down slightly (-1.0%), after recording a peak of +12.3% on 7 May, and the FTSE Italia All Share index showed a similar result (-1.5%). After underperforming in the first months of the year, mid-cap stocks closed the gap with the main index: the FTSE Italia STAR ended the period up slightly (+0.5%).

European corporate markets ended the first half of 2018 negatively, with risk premiums (measured as asset swap spreads) widening sharply compared to the end of 2017, and investment grade (IG) securities performing worse than riskier (HY) ones. Expectations of future moves by the European Central Bank, with the anticipated start of the normalisation phase of its monetary policy, continued to be among the main drivers of the markets, in addition to new risk factors linked to the evolution of the political situation in Italy and of US trade policies.
After a positive beginning of the year and in line with 2017, from February the markets showed a progressive widening of spreads, which continued until the end of the period, with high volatility and sporadic short periods of renewed purchases by traders, which however did not change the underlying negative trend.
In terms of performance, the spread on IG securities has broadened by around 70% since the start of 2018, also due to their greater sensitivity to risk-free interest rates, while HY securities closed the first six months with a widening of around 40%. The very small spreads recorded at the beginning of the year contributed to sharpen the negative performance. At sector level, financial securities showed greater weakness than industrial ones, probably due to a closer link between banks and country risk, especially in Italy, as well as the lack of technical support provided by the ECB's Corporate Sector Purchase Programme (CSPP). In this regard, according to ECB data, on 29 June the corporate bonds held by the central bank amounted to approximately 162 billion euro.
As regards the primary market, there were less issues in the first six months of 2018 than in the same period of the previous year. The performance in the semester was characterised by high volumes at the beginning of the year, with issuers willing to anticipate probable moves by the ECB, while the increase in volatility and rates in the final months of the period turned into a more wait-and-see approach by companies, with the postponement of some issues also already having been announced.

The emerging economies and markets

In the first quarter of 2018, the emerging economies continued on a path of strong growth on average. GDP increase, for a sample covering 75% of emerging countries, was 4.6% on an annual basis compared to 3.9% in the first quarter of 2017 and 4.3% in the previous quarter. Growth was driven by the significant acceleration in the commodity exporting countries, particularly in the oil exporting countries of the CIS, MENA and Sub-Saharan Africa areas (with Russia, Saudi Arabia and Nigeria coming out of recession). The Asian economies in turn contributed to the global economic growth, keeping their pace in line with 2017 (close to 7%), while Latin America showed some signs of relative weakness, partly due to uncertainties over the economic policy pursued in some major countries (Brazil, Mexico, Argentina and Venezuela).
In the countries where ISP subsidiaries are based, year-on-year GDP growth for the first quarter of 2018 slowed in several countries, compared to the particularly strong growth in the fourth quarter of 2017. The slowdown involved both the CEE countries (Slovenia went from 6% in the fourth quarter of 2017 to 4.6% in the first quarter of 2018 and the Czech Republic from 5.1% to 4.5%) and the SEE countries (Romania went from 6.7% to 4%, respectively, in the two quarters), which overall remained above the long-term average. In the SEE Area, GDP growth accelerated in Serbia (from 2.4% to 4.6%), with a double-digit increase (over 20%) in the construction sector. In the CIS countries, the economy accelerated both in Russia (from 0.9% to 1.5%) and, in particular, in Ukraine (from 2.2% to 3.1%). Egypt's GDP continued to grow strongly (+5.4%).
In the emerging countries, inflationary pressures remained modest overall, but significantly higher in some countries. For the sample covering 75% of the emerging markets, the year-on-year inflation rate fell from 4% in December 2017 to 3.5% in May 2018, while it rose in Argentina to 26.4% in May and in Turkey to 15.4% in June. In the countries where ISP subsidiaries are based, inflation, while remaining within the target bands of the central banks, rose steadily in the CEE/SEE area, driven by energy prices, wage growth and strong domestic demand. In contrast, inflation fell again in Russia, to 2.4% in May, well below the central bank's target. Due to the weakening of forces linked to the past depreciation of the exchange rate, year-on-year inflation also slowed in Ukraine and Egypt, from 13.7% to 9.9% and from 21.4% to 14.4% between December 2017 and June 2018, respectively, although in Egypt there was an increase in June due to tariff increases and cuts in subsidies.

In the first half of 2018, some emerging country central banks raised their key interest rates. These measures were aimed at counteracting depreciation pressures on local currencies due to the strength of the dollar and inflationary pressures (as in Argentina and Turkey). Interest rates also rose in countries with a dollar-based exchange rate regime, such as the Gulf Cooperation Council (GCC) group, which followed the Fed's restrictive action, and some Asian countries (India, Indonesia, the Philippines and Malaysia), due to the increase in core inflation. China left interest rates unchanged, but reduced its mandatory reserve requirement to support credit demand.
In the countries where ISP subsidiaries are based, monetary policy remained accommodative in all the CEE/SEE countries, except for the Czech Republic and Romania, where the rise in inflation had already prompted central banks to take restrictive action, with repeated increases in key interest rates from 0.05% last August to 1% in June, and from 1.75% in January to 2.50% in May, respectively. However, in the first half of 2018, interest rates were cut again by 25 basis points in Albania and

50 basis points in Serbia. Outside the CEE/SEE area, there was a reduction in key interest rates in Russia, where inflation fell below target, and in Egypt, as previous inflationary pressures gradually eased. On the other hand, concerns about the possible negative effects of the freezing of IMF support led the Ukrainian central bank to rise its key interest rate (now at 17%).

The MSCI Emerging Markets Index fell by 4% in the first half of 2018, with weaker performance than both the Euro Stoxx and the S&P USA Index. The downward pressure came mainly from some Asian markets (Shanghai -13.9% and Jakarta -8.8%) and Latin America markets (Sao Paulo -4.8% and Buenos Aires -13.4%). The further rise in crude oil prices provided limited support to the oil markets (only Saudi Arabia's index recorded a positive performance of +15.4%), while negative valuations prevailed due to the rise in dollar rates, continued geopolitical tensions and the worsening of the domestic financial situation.
With regard to the countries where ISP subsidiaries are based, in the CIS area the positive impact of the recovery in hydrocarbon prices was offset by concerns about relations with western countries, with the Moscow index remaining substantially stable and strong GDP growth driving the Kiev index (+6%). The Egyptian stock market also benefited from the GDP growth, gaining almost 9% in the first six months of 2018. However, declines prevailed in the CEE and SEE markets, with particularly sharp falls in Poland (-12.2%) and Hungary (-8.3%). On the contrary, the index rose by 10% in Slovenia.
On the foreign exchange markets, the US dollar appreciated by 5.3% against a basket of the main emerging currencies (OITP – Other Important Trading Partners Index). The strengthening of the US dollar reflects the negative effects of the rise in US dollar exchange rates with countries with large current account deficits to be financed (Argentina, Turkey and South Africa, among others), the aggressive policy pursued by the US administration on duties, and concerns about a populist shift in the management of economic policy by some new administrations (Brazil and Mexico).
In the countries where ISP subsidiaries are based, despite the further rise in oil prices, the Russian rouble depreciated by 5% against the dollar, impacted by new sanctions from Western countries, while the Ukrainian hryvnia appreciated (+6.2%), although the country did not obtain new instalments of the IMF loan. The high premium over dollar rates and the positive economic situation kept the EGP/USD exchange rate stable (at around 17.5). In Central and South-Eastern Europe, the performance of the currencies of the SEE countries against the US dollar substantially reflected the performance of the euro, which depreciated by almost 3% against the dollar, while the currencies of the CEE countries recorded large losses, which were particularly sharp for the Hungarian forint (-9.1%), the Polish zloty (-7.7%) and the Czech koruna (-4.8%), also as a result of depreciation against the euro.
In the first half of 2018, there was a general increase in the risk premium for investment in emerging markets. The EMBI+ average spread in emerging markets rose by 80 basis points to 408 at the end of June. With regard to the changes in the CDS spread, in the countries with ISP subsidiaries these involved the CIS countries, particularly Ukraine (spread +70 basis points to 440 basis points), and Egypt (spread +50 basis points to 408 basis points). In the CEE/SEE countries, however, the spread narrowed in Serbia (-20 basis points) and Hungary (-10 basis points), whereas there were no significant changes in the other countries.

The Italian banking system

Interest rates and spreads

In the first half of 2018, bank interest rates were essentially stable or in decline. The fall affected primarily lending rates. The average rate offered on new loans to businesses hit a new record low in January, in correspondence with the jump in volume growth, before rising temporarily and dropping back down in May to the same level as at the beginning of the year. Compared to Europe, Italian rates on new loans to businesses remained below the Eurozone average, also for smaller loans, while for loans of over 1-million-euro lending rates have had a significantly negative spread for over two years. Rates on mortgage disbursements to households also reached new record lows.
In this context, the reduction in interest rates on outstanding loans continued from March, after three months of stability.
The average rate on deposits remained sticky, at 0.39%-0.40%, in line with the average in 2017. For overnight deposits, the near-zero levels for interest rates paid to both households and businesses justify the halt in the downward trend. The rate on overnight deposits in May remained at the same level as in the previous six months, while the average rate on time deposits was more variable, with a slight rise in May. The continuation of a moderate decline in the average rate on the stock of bonds contributed to a further drop in the overall cost of customer funding, although the reduction was marginal.
As a result, the spread between lending and borrowing rates fell slightly from March. The mark-down on demand deposits was unchanged for the eighth month in a row, remaining negative for the seventh consecutive year. At the same time, the mark-up further declined from March due to the fall in short-term lending rates.

Loans

Bank lending to the private sector strengthened, with the yoy change reaching +3.0% in April and then slowing down to a more moderate pace of 2.5% in May (figures adjusted for securitisations). The improvement was due to the return to growth for loans to non-financial companies, together with the continued positive performance of loans to households. Overall, the latter maintained a growth rate of 2.8% yoy, the same as in the last quarter of 2017, thanks both to mortgage loans for house purchase and consumer credit. However, as already seen in 2017, the flow of mortgage lending, despite remaining at high volumes, was down year-on-year, mainly due to the decrease in subrogations. New mortgage loan contracts also declined, but less sharply than the subrogations. Fixed-rate mortgages remained predominant, because of interest rates still at their historical lows. The trend in mortgage loans to households was consistent with the more moderate pace of residential property transactions, already seen in 2017, compared to the double-digit growth posted in 2016. Consumer credit disbursed

by banks continued to grow at a rate of between 8% and 9% yoy in terms of stock, with flows moving at an average rate of 35% in the first five months of 2018.
yoy at the beginning of 2018, after around two years of stagnation. In the first five months of the year, the trend fluctuated between 1.2% yoy and a peak of 2.2% in April, with a slowdown to 0.6% in June. In addition to the strengthening of the economic recovery, the supply-side incentives provided by the Eurosystem's targeted refinancing operations probably contributed to the upturn at the beginning of the year. The overall development was due to different dynamics depending on sector and company size. In particular, growth in lending to the manufacturing sector strengthened, as did that in lending to the service sector, although this was more moderate than the increase in lending to industry. Loans to construction companies, on the other hand, continued to decline, albeit at a slower pace than in 2017. Looking at borrower size, loans to medium and large businesses kept growing, with a strengthening in trend. Improvements were also seen for loans to small businesses, which finally stopped falling in the second quarter and remained essentially unchanged in May.
Trends in loans to businesses has to be seen in light of the generally positive supply and demand scenario. According to the lending survey conducted by the Bank of Italy, the improvement in expectations regarding economic activity has driven banks to continue with a policy of a cautious reduction of their margins and improving contractual terms and conditions. In addition, business demand for long-term loans continued to recover at the beginning of 2018, mainly driven by low interest rates. At the same time, applications for loans from households for consumer credit and, to a lesser extent, for residential mortgages still showed a growing trend, although, for both types of loans, it had already gradually become more moderate from the beginning of 2017. Business confidence in credit access conditions also continued to be favourable. For small businesses, this confidence reached a new high since, when the financial crisis arose in 2008, this kind of survey was launched. The liquidity situation remained largely relaxed and was considered sufficient or more than sufficient by a large majority of companies. Business debt as a percentage of GDP continued to fall in the first quarter of 2018.
Credit quality indices continued to improve significantly, thanks to the consolidation of the economic growth and the sale and securitisation of bad loans by banks. The stock of net bad loans continued to decline, falling to 49 billion euro in May, down by 15 billion euro compared to December 2017 and by 38 billion euro, or -43%, compared to the end of 2016. Net bad loans as a percentage of total loans fell to 2.8%, down 2 percentage points compared to December 2016. The default rate in terms of flow of non-performing loans in relation to total loans on an annualised basis remained at the pre-crisis levels reached in the second half of 2017, standing at 1.7% in the first quarter of 2018. More specifically, for loans to businesses, the default rate fell to 2.6%, from 3.4% for the previous quarter and in line with the figure recorded ten years before. The default rate of loans to households remained stable at the very low level of 1.2%.

Direct deposits

In the first half of 2018, customer funding confirmed the trends observed previously, with a growth driven by the significant increase in overnight deposits. At the same time, the double-digit decline in time deposits carried on. The performance of customer deposits continued to benefit from strong growth in overnight deposits of non-financial companies and the solidity of household deposits. Growth in deposits held by residents continued to be offset by the reduction in the stock of bank bonds, the trend of which was affected by customer portfolio reallocation processes. Overall, customer funding fluctuated between substantial stability and growth of approximately 1%. Also taking into account the ECB refinancing, which essentially stabilised, total bank funding in May 2018 was unchanged compared to twelve months before.

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 still reflecting the fall in bank bonds, while the decline in government bonds slowed in the first quarter.
In the asset management market, the first half of 2018 saw a slowdown in the mutual fund inflows compared to the same period of 2017, mainly due to the increase in market volatility, geopolitical tensions, changes in US interest rates and, in the second quarter, the political uncertainty in Italy. For these reasons, multi-asset funds, able to offer a greater degree of diversification, recorded substantial positive cumulated flows, while bond fund flows were negative. A similar trend was seen for portfolio management, which suffered a sharp weakening of inflows both for the institutional component and for retail mandates.
New life insurance business, on the other hand, performed well, slightly up on 2017, after two years of decline. Specifically, subscriptions of traditional (class I) products began to increase again, while market trends slowed down the production of policies with a higher financial content. The offering of multi-class products played a fundamental role for both categories.

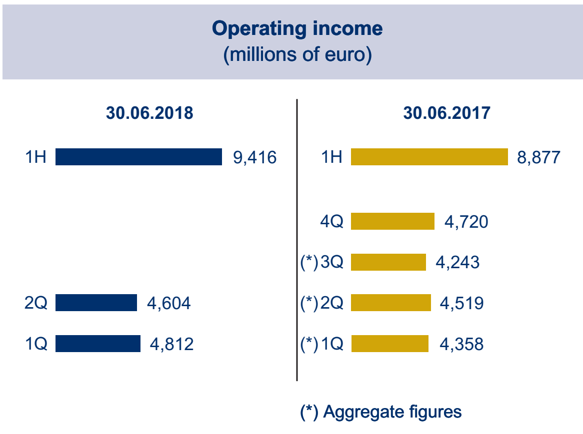
Intesa Sanpaolo in the first six months of 2018

Consolidated results

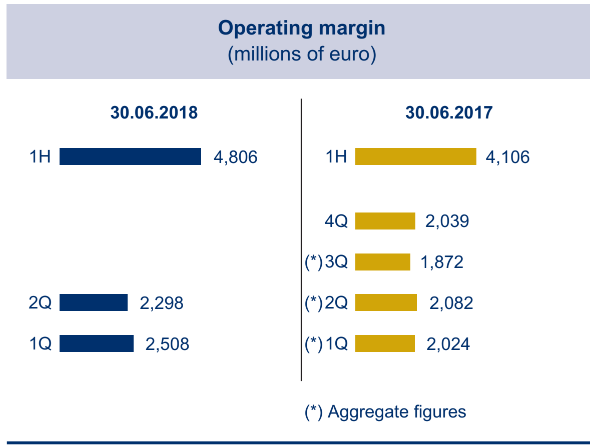
The results for the first half of 2018 need to be interpreted bearing in mind the major change with respect to the 2017 Annual Report and the interim statements for that year, consisting of the first-time adoption of IFRS 9 from 1 January 2018. As explained in the previous chapter, the adoption of IFRS 9 has resulted in a change to the accounting rules governing the classification and measurement of financial instruments and the adoption of new financial statement formats, with changes to the content of several of their captions.
For the purposes of the comparison with the income statement figures for the first half of 2017, the amounts in the captions affected by the adoption of IFRS 9 have not been restated, but have solely been presented according to the new format.

This is because the specific provisions of IFRS 9 and IFRS 1 do not require the mandatory restatement on a like-for-like basis of the comparative information in the financial year of first-time adoption of the new standard.
The comparison of the balance sheet figures in the comments on the report on operations is, however, on a like-for-like basis, because the reclassified balance sheet and the related tables provide a comparison with the figures as at 1 January 2018, which therefore include the effects of first-time adoption of IFRS 9.
In addition, the Intesa Sanpaolo Group, as a financial conglomerate primarily engaged in banking activities, has decided to exercise the option of adopting the Deferral Approach, according to which the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. The deferral of the adoption of IFRS 9 by the companies of the Insurance Division means that, starting from 1 January 2018, different accounting standards need to be applied for the financial assets and liabilities within the Group's consolidated financial statements. As a result, specific captions have been added to the consolidated financial statements to include the balance sheet entries and profit or loss effects of the insurance operations.
Lastly – solely for the purpose of enabling a like-for-like comparison of the results – the figures for the three quarters of 2017 have also been reconstructed, based on operational information, to retroactively reflect the profit or loss effects of the assets and liabilities of the former Banca Popolare di Vicenza and Veneto Banca (the Aggregate Set). These figures are shown in specific additional columns ("Aggregate" figures) of the reclassified income statement and the quarterly-based reclassified income statement.

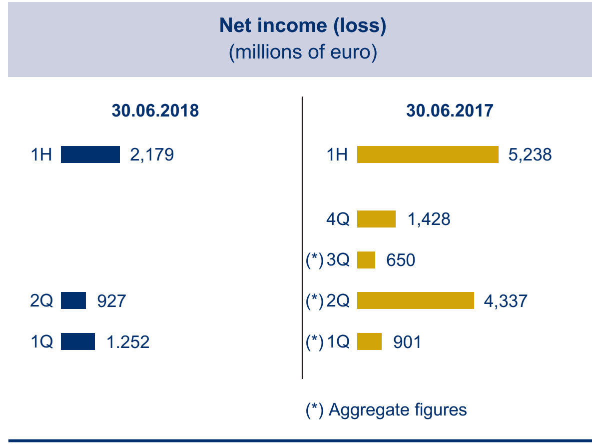
The Intesa Sanpaolo Group closed its income statement for the first half of 2018 with net income of 2,179 million euro compared to 5,238 million euro for the first six months of 2017. For comparison purposes, it should be noted that the income statement for the first half of the previous year included the public contribution of 3.5 billion euro assigned by the Italian government as part of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca to offset the impact on the capital ratios. Excluding this contribution, the net income for the first half of 2018 increased by more than 25%.
The positive performance with respect to the "Aggregate" like-for-like figures was due to the increase in Operating income, largely attributable to the Profits (losses) on financial assets and liabilities at fair value, in addition to the positive contribution of net fee and commission income and income from insurance business. Operating costs were down on the like-for-like figure. Net adjustments to loans were also lower. The reduced impact of duties and charges for the banking system also had a positive effect.



The detailed breakdown of the components of operating income shows net interest income of 3,694 million euro for the first half, slightly down on the Aggregate figure (-2%), but up on the figure for the first six months of 2017 (+2%), due to higher interest income on customer dealing and on financial assets.
The contribution of net fee and commission income (4,004 million euro), which represents around 43% of operating income, was up by 2.1% on the Aggregate figure and 6.4% on the figure for the first six months of 2017, due to the positive performance of the commercial banking segment (around +13%) and the management, dealing and financial consultancy segment (+5.2%).
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, showed a significant increase (approximately +10% to 575 million euro), due to a higher contribution from the technical margin.
The Profits (losses) on financial assets and liabilities at fair value, which include the profits (losses) on trading and the fair value adjustments in hedge accounting, reached 1,094 million euro, a significant increase (+534 million euro on the Aggregate figure and +500 million euro on the first half of 2017), partly due to the fair value measurement, in the first quarter, of the interest held in NTV - Nuovo Trasporto Viaggiatori (264 million euro) in relation to its subsequent sale.



Other operating income and expenses – which include profits on investments carried at equity and other income and expenses from continuing operations – were down (49 million euro compared to 103 million euro for the Aggregate figure and 72 million euro for the first six months of 2017) due to the lower contribution from companies consolidated at equity.
As a result of the above performance, operating income for the first half of 2018 amounted to 9,416 million euro, up 6.1% on the Aggregate figure and 9.8% on the figure for the first six months of 2017.
Operating costs (4,610 million euro) were down compared to the Aggregate figure (-3.4%), both for personnel expenses (-2.3%) and administrative expenses (-6.6%), but were up on the figure for the first half of 2017 (around +9%) for both components (+10% and +7.5% respectively), attributable to the operations of the Aggregate Set. Amortisation and depreciation were essentially stable with respect to the Aggregate figure (+0.2%) and up on the figure for the first six months of 2017 (+8%), due to the amortisation of intangible assets.
The cost income ratio was 49%, compared to 53.7% calculated on the Aggregate figures and 49.3% for the first half of 2017.
As a result of the revenue and cost performance, the operating margin came to 4,806 million euro, up 17% on the Aggregate figure and 10.6% on the figure for the first half of 2017.
Net adjustments to loans decreased overall to 1,177 million euro (approximately -18% compared to both the Aggregate figure and the first half of 2017). Other net provisions and net impairment losses on other assets increased overall compared to the first six months of 2017 to 86 million euro (69 million euro for the Aggregate figure and 59 million euro for the first half of 2017).
Other income (expense), which includes realised profits (losses) on investments and income and expenses not strictly linked to operations, was low (10 million euro) compared to 313 million euro for the first half of 2017 – net of the abovementioned public contribution of 3.5 billion euro recognised at the time under this caption – which included 196 million euro from the fair value measurement of the investment in Bank of Qingdao following the reclassification of the investment no longer included among companies subject to significant influence and 109 million euro from the disposal of a stake in NTV and its fair value measurement following the reclassification of the remaining investment held, which was also no longer included among companies subject to significant influence.
As a result of the changes described above, gross income amounted to 3,553 million euro (around +22% on the Aggregate figure and around +12% on the first half of 2017, both net of the public contribution recognised in that year).

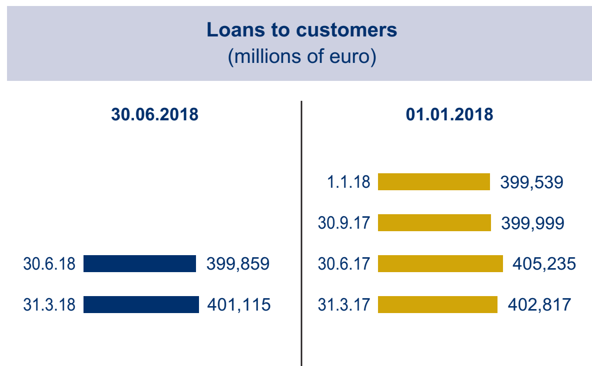


Taxes on income came to 1,052 million euro, with a tax rate of 29.6%. Charges for integration and exit incentives were recorded for 35 million euro, as well as effects of purchase price allocation for 70 million euro.
Although they were lower than in the first half of the previous year, the charges aimed at maintaining the stability of the banking industry still had a significant impact, totalling 200 million euro, net of taxes, (Aggregate figure of 489 million euro and 460 million euro for the first half of 2017) and consisted of the cost of ordinary contributions to resolution funds for all 2018 and to guarantee funds (148 million euro, net of taxes, corresponding to 211 million euro before taxes), along with additional contributions (53 million euro, net of taxes, corresponding to 79 million euro before taxes) requested in the second quarter by the National Resolution Fund in respect of the management of the non-performing assets of the four “good banks” within the framework of the resolution of the crises of Banca delle Marche, Banca Popolare dell’Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara.
After allocating profits and losses attributable to minority interests, the income statement for the first half of 2018 closed, as stated above, with net income of 2,179 million euro.

The income statement for the second quarter in comparison to the previous quarter showed a decline in operating income (-4.3% to 4,604 million euro). In detail, net interest income in the second quarter was slightly lower than in the first quarter (-0.9%), as was net fee and commission income (-1.1%), particularly in the management and dealing segment. Income from insurance business in the second quarter of 2018 was lower than in the first quarter (-4.4%), due to the fall in both the net investment result and the technical margin. Trading activities in the second quarter of the current year decreased compared to the first three months, which also benefited from the effect of the sale of NTV. Operating costs in the second quarter were substantially unchanged compared to the previous quarter (+0.1%), due to a slight increase in personnel expenses mainly attributable to the variable component, entirely offset by lower administrative expenses and lower amortisation and depreciation.

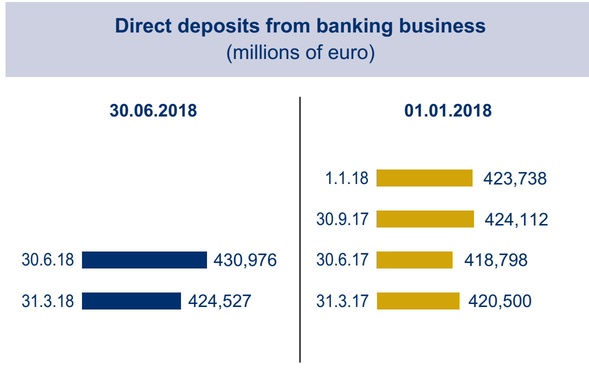
In relation to revenue and cost trends, the operating margin for the second quarter was lower than the margin in the first quarter (approximately -8.4% to 2,298 million euro).
The level of adjustments to loans in the second quarter, which was higher than in the first quarter (around +44%), mainly due to higher impairment of bad loans and unlikely-to-pay loans, resulted in a fall in Gross income (1,576 million euro compared to 1,977 million euro in the first quarter), despite a decrease in net provisions and net impairment losses on other assets (around -31%).
After the recognition of taxes on income, charges for integration and exit incentives, the effects of purchase price allocation, levies and other charges concerning the banking industry, income on discontinued operations, and minority interests, the income statement for the second quarter closed with net income of 927 million euro compared to 1,252 million euro for the previous quarter.

Loans to customers
(millions of euro)

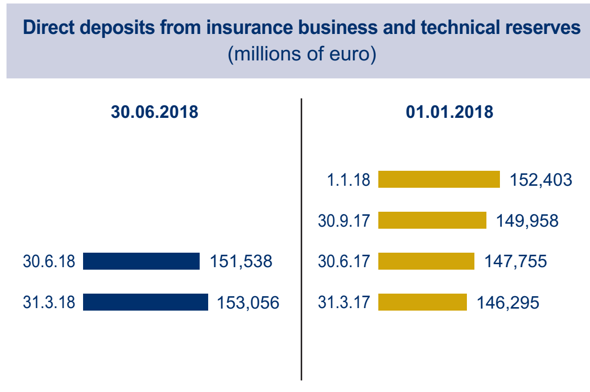


With regard to the balance sheet aggregates, as at 30 June 2018 the Group's loans to customers essentially held steady from the beginning of the year (+0.1% to 400 billion euro), as a result of the positive performance of commercial banking loans (+5 billion euro) and of mortgage loans in particular (around +2 billion euro), as well as advances and other loans (around +4 billion euro). In contrast, there was a decrease in loans represented by securities (-0.5 billion euro) and in non-performing loans (-4.2 billion euro), with the latter also related to the recognition under discontinued operations of the bad loans to be sold to Intrum.

Direct deposits from banking business
(millions of euro)



Direct deposits from banking business at the end of the half-year increased compared to the beginning of the year (+1.7% to 431 billion euro), although with different performances for the various types of funding. In detail, the growth was driven by current accounts and deposits (around +7 billion euro) and repurchase agreements (+9 billion euro), which fully offset the decrease in bonds (-3.6 billion euro), subordinated liabilities (-2.2 billion euro) and other forms of funding (-2.8 billion euro).



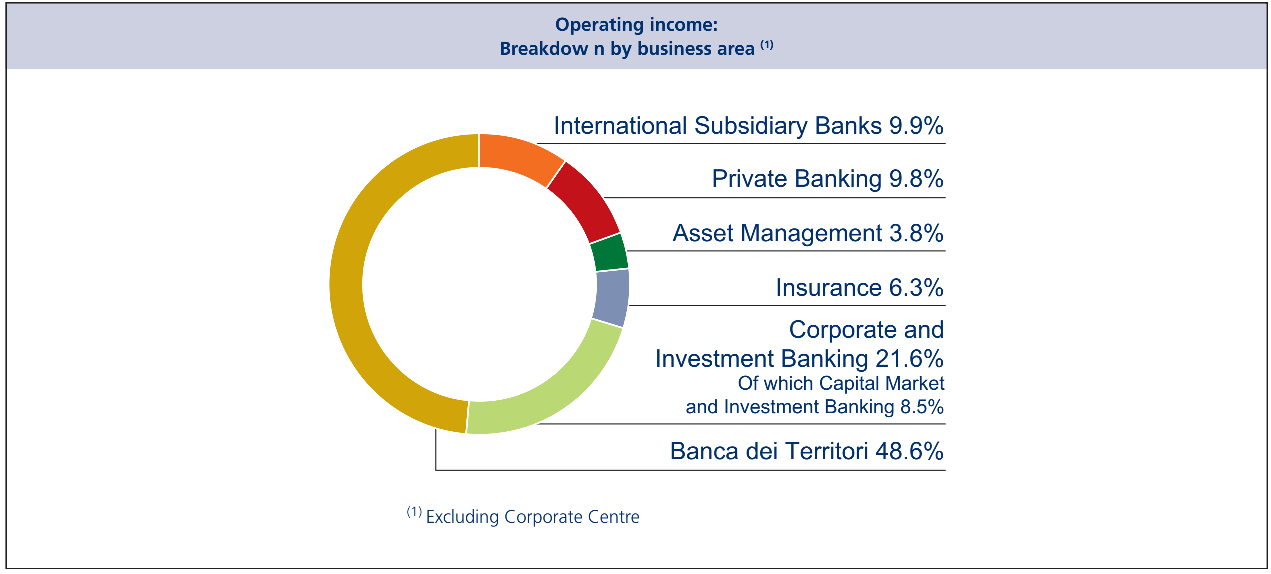
Direct deposits from insurance business at the end of June were down slightly from the start of the year (-0.6% to 152 billion euro). Technical reserves, which constitute the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, decreased since the beginning of the year (-3.7%), largely offset by the change in financial liabilities measured at fair value (+3.1%), attributable to the contribution of unit-linked products.

The Group's indirect customer deposits were down slightly at the end of June (-0.9% to 516 billion euro) as a result of the performance of assets under administration (-5 billion euro), attributable to securities and third-party products in customer portfolios and, to a lesser extent, to relations with institutional customers.
Assets under management, on the other hand, were up slightly (+0.3 billion euro in the first half), thanks to placements by the distribution networks, particularly for investment funds (+1.1 billion euro) and insurance products (+0.6%). In the half year, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 10.2 billion euro. Open-ended pension funds and individual pension policies (+5%) and business with institutional customers (+6.9%) performed more dynamically, albeit with a lower weight. By contrast, portfolio management schemes were impacted (-4.7%) by unfavourable market performance.

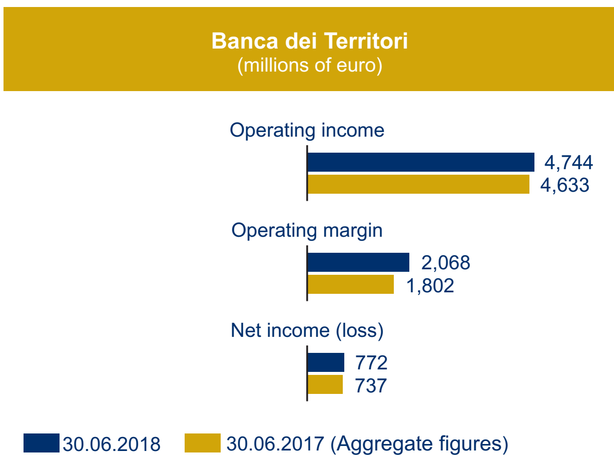
Results of the Business Units

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, and 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 21%), commercial banking activity abroad (approximately 10%), private banking activity (approximately 10%), insurance activity (approximately 6%) and asset management (approximately 4%).
Where necessary, the divisional figures for the periods under comparison have been restated in line with the changes in the scope of the Business Units and to take account of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca (the "Aggregate" Figures)

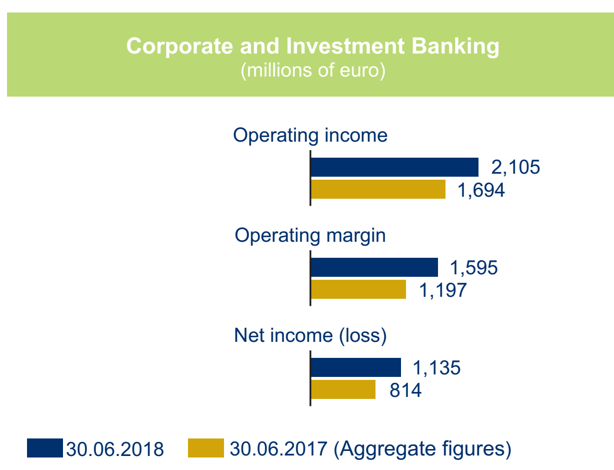
Operating income:
Breakdow n by business area [1]



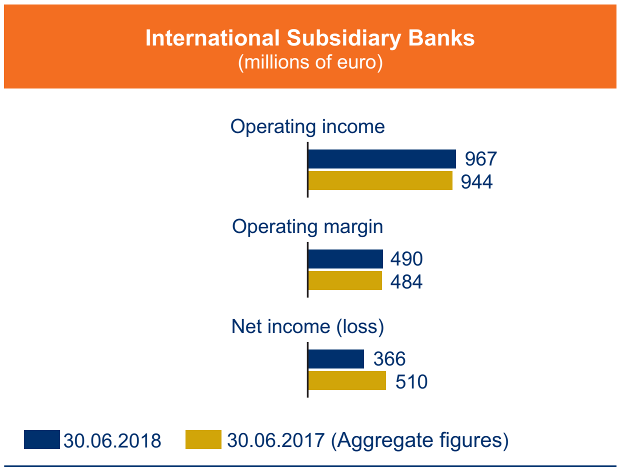
(1) Excluding Corporate Centre



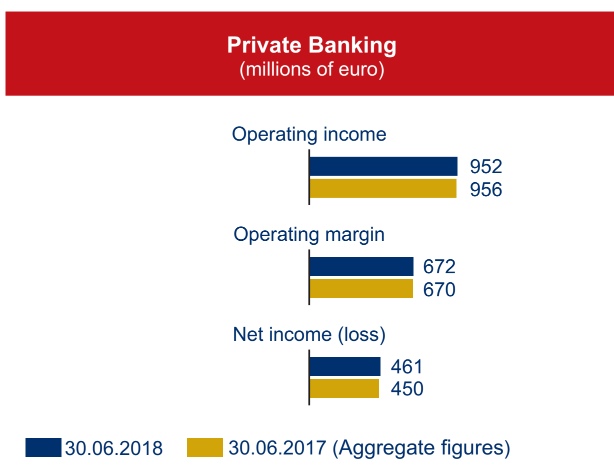
In the first half of 2018, the Banca dei Territori Division – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 4,744 million euro, up 2.4% on a like-for-like basis compared to the first six months of the previous year. More specifically, there was a slight increase in net interest income (+1%) and a rise in net fee and commission income (+3.9%), particularly in the asset management segment. Among the other revenue components, which however provide a marginal contribution to the Division's income, there was a decline in other operating income, while the profits (losses) on financial assets and liabilities at fair value recorded an increase.
Operating costs, equal to 2,676 million euro, were down compared to the first six months of 2017 (-5.5%), due to the savings on personnel and administrative expenses. The operating margin amounted to 2,068 million euro, up by 14.8% on the first half of 2017. In contrast, gross income, amounting to 1,225 million euro, was down slightly (-1.4%), due to higher adjustments to loans and provisions. After accounting for the Division's taxes, charges for integration and the effects of the purchase price allocation, net income came to 772 million euro, up 4.7%.
The balance sheet figures of the Banca dei Territori Division at the end of June 2018 showed an increase in loans to customers (+0.8% to 214,093 million euro) compared to the beginning of the year, as a result of the increase in medium- and long-term loans to individuals and businesses. Direct deposits from banking business showed an increase (+1.2% to 194,186 million euro), driven by amounts due to customers.



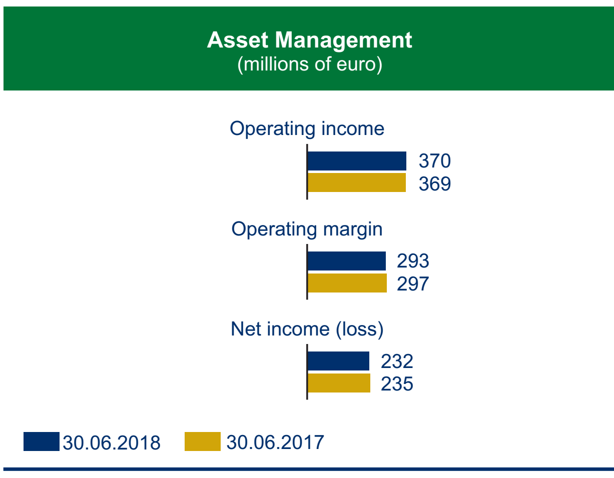
In the first half of 2018, the Corporate and Investment Banking Division generated operating income of 2,105 million euro, an increase of 24.3% on a like-for-like basis compared to the first six months of the previous year.
In detail, net interest income of 816 million euro was down slightly (-1.7%), mainly as a result of the lower contribution from customer dealing. The contribution from net fee and commission income was also down (-8.2%), mainly due to the performance of commercial banking and investment banking.
Profits (losses) on financial assets and liabilities at fair value, amounting to 849 million euro, more than doubled, also as a result of the positive effect (264 million euro) resulting from the fair value measurement of the investment in NTV, recognised in the first quarter in relation to its subsequent disposal.
Operating costs amounted to 510 million euro, slightly up on the first six months of 2017 (+2.6%), due to higher administrative and personnel expenses, driven by the increase in the average workforce related to business development.
As a result of the above revenue and cost trends, the operating margin rose by 33.2% to 1,595 million euro. Gross income, amounting to 1,576 million euro, was up by approximately 39% due to lower adjustments and provisions. Net income reached 1,135 million euro, compared to 814 million for the first half of 2017 (+39.4%).
The Division's intermediated volumes were down slightly compared to the beginning of the year (-0.6%). In detail, loans to customers were up (+2.2% to 116,880 million euro), mainly as a result of increased structured finance transactions and transactions with international customers and large groups, whereas direct deposits from banking business posted a decrease (-3.6% to 103,288 million euro), attributable to securities issued and, to a lesser extent, to financial liabilities measured at fair value.



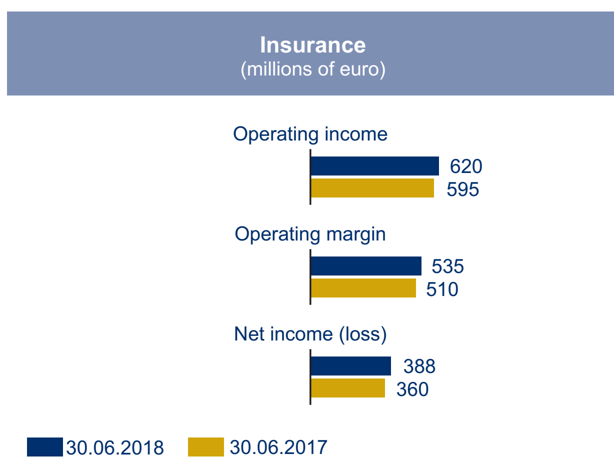
The International Subsidiary Banks Division – which is responsible for the Group's operations on international markets through commercial banking subsidiaries and associates that carry out mainly retail banking activities – reported net operating income of 967 million euro in the first half of 2018, up 2.4% on a like-for-like basis compared to the same period of 2017 (+3.4% at constant exchange rates). In detail, net interest income came to 642 million euro (-1.2%), while net fee and commission income, at 258 million euro, was up sharply (+7.1%). The profits (losses) on financial assets and liabilities at fair value, amounting to a profit of 103 million euro, were up (+30.4%) thanks to the higher contribution from VUB Banka and to dividends from the Bank of Qingdao.
Operating costs, amounting to 477 million euro, were up by 3.7% compared to the first half of 2017 (+4.8% at constant exchange rates) mainly as a result of the revision of the incentive system within the framework of personnel expenses.
As a result of the above revenue and cost trends, the operating margin came to 490 million euro, up 1.2%. Gross income, amounting to 470 million euro, was down on 612 million euro for the first six months of last year (-23.2%), which had benefited from the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence. Excluding this effect there was an increase of 11.4%. The Division closed the first half of 2018 with net income of 366 million euro (-28.2%).
The Division's intermediated volumes increased compared to the end of December 2017 (+3.8%) owing to the positive performance of loans to customers (+3.9%) as well as – mainly – amounts due to customers under direct deposits from banking business (+3.8%).



The Private Banking Division – which serves the top customer segment (Private and High Net Worth Individuals), creating value by offering excellent products and services – reported a slight decrease in operating income in the first half (-0.4%, compared to the like-for-like figure, to 952 million euro), mainly due to the decrease in net interest income, in the profits (losses) on financial assets and liabilities at fair value and in other operating income, only partially offset by the performance of net fee and commission income, related to the growth in assets under management and to the contribution of advisory services.
Operating costs were down (-2.1%), as a result of changes in administrative expenses and amortisation and depreciation.
The operating margin rose slightly (+0.3% to 672 million euro) and gross income was up (+2.5%) compared to the same period of 2017. Net income was 461 million euro (+11 million euro, or +2.4%).
As at 30 June 2018, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 186 billion euro (+0.8 billion euro compared to the beginning of the year). This performance was due to the net inflows, which more than offset the market effect, which had an unfavourable impact on assets in the first six months of the year. The assets under management component amounted to 116.5 billion euro (+0.3 billion euro).
During the second quarter, Fideuram completed the acquisition of 94.6% of the share capital of Morval Vonwiller Holding, operating in the private banking and wealth management segment, with headquarters in Switzerland and an international presence.



The Asset Management Division – whose mission is to develop asset management solutions targeted at the Group's customers and is present on the open market segment through the subsidiary Eurizon Capital and its associates – posted a slight increase in operating income in the first half of 2018 (+0.3% to 370 million euro) compared to the figure for the previous year, despite the absence of the contribution from the investment in Allfunds Bank (around 25 million euro) which was sold at the end of 2017.
Net fee and commission income performed strongly (+11.8%), while operating costs increased (+6.9%), as a result of the upgrade of the operating structures, of the growth in assets under management and of the research costs related to the introduction of the MiFID II regulations. As a result of the above revenue and cost performance, the operating margin was down slightly (-1.3% to 293 million euro) compared to the first six months of 2017, which included the abovementioned contribution from Allfunds Bank. Excluding this contribution, the operating margin would have increased by 7.7%.
The Division closed the first half of 2018 with net income of 232 million euro (-1.3%).
Overall, assets under management by the Division amounted to 250 billion euro at the end of June, a slight decrease compared to the beginning of the year (-1.3%), as a result of negative market performance that fully offset the benefit of the net inflows.



The Insurance Division – which oversees the management of the subsidiaries of the Intesa Sanpaolo Vita insurance group and of Fideuram Vita, with the mission of further developing insurance products tailored for the Group's customers – reported an increase in income from insurance business (+4.5% to 626 million euro) compared to the first half of 2017, both due to the technical margins for life insurance products and to the profitability of the protection business.
Operating income was also up (+4.2% to 620 million euro), as was gross income (+4.5% to 533 million euro), with costs stable.
Net income, after the economic effects of purchase price allocation for 8 million euro, amounted to 388 million euro (+7.8%).
Direct deposits from insurance business were down slightly (-0.6% to 151,584 million euro), mainly due to the reduction in technical reserves.

Highlights

Highlights for first half of 2018

As described in detail in the 2017 Annual Report, to which readers may refer, on 6 February 2018 the Board of Directors of Intesa Sanpaolo approved the Group's 2018-2021 Business Plan, which continues to prioritise strong and sustainable value creation and distribution, while maintaining a very solid capital position and significantly reducing the risk profile at no extraordinary cost to shareholders. The Plan confirms Intesa Sanpaolo's role as a real-economy bank with sustainable profitability, which creates value for all its stakeholders, with a contribution of over 300 billion euro to the economy over the plan period. Information is provided below, in a specific paragraph, on the initiatives undertaken during the first half of the year.

As regards the stake in the Bank of Italy's share capital, in the first half of 2018 further stakes equal to a total of approximately 1.51% of the capital of the Bank of Italy were sold – at nominal value, coinciding with the carrying value – for a price of approximately 113 million euro. Following the completion of the transactions, the Group's stake in the Bank of Italy's share capital decreased to 25.53%.

The Board of Directors of Intesa Sanpaolo approved the merger by incorporation of Cassa di Risparmio di Firenze and Cassa di Risparmio di Pistoia on 6 March, while the merger by incorporation of Cassa di Risparmio in Bologna was approved on 20 March.

From 6 April 2018, Intesa Sanpaolo – having completed the feasible buyback transactions with respect to bonds issued by Banca Popolare di Vicenza and Veneto Banca, backed by government guarantee (either placed on the market or used by the two banks as collateral in repos) – was able to proceed with the cancellation of the bonds held by it. Consequently, Intesa Sanpaolo sent a communication to the Ministry of Economy and Finance renouncing the related government guarantee. The renunciation of the guarantee will be valid only and exclusively in respect of the bonds held by the Bank (equal to around 9.3 billion euro), while it will not have any effect on the remaining bonds outstanding (equal to around 0.8 billion euro), still held by other bondholders, since they were not included under the aforementioned buyback transactions. The renunciation of the guarantee extinguished the risk of a potential cost for the government of around 9.3 billion euro.

The merger by incorporation of Banca Nuova into Intesa Sanpaolo took effect from 7 April 2018, with accounting and tax effects starting from 1 January 2018.

On 10 April 2018, after having obtained all the necessary authorisations, the acquisition was completed of Morval Vonwiller Holding SA by Fideuram – ISP Private Banking. The scope of the acquisition included Banque Morval SA, which has been present in Switzerland since 1974 as a private bank and with a banking licence since 1989, and operates in the areas of wealth management and fund management. The acquisition is in line with Intesa Sanpaolo's strategic plan to strengthen its presence on international markets in the field of private banking. Morval Vonwiller's presence in Geneva will permit Intesa Sanpaolo's Private Banking Division, currently present in Lugano, London and Luxembourg, to further expand its geographic footprint outside Italy.

On 11 April 2018, Poste Italiane and Intesa Sanpaolo signed a three-year framework agreement for the distribution of selected products and services of the two groups through a range of non-exclusive specific agreements with the aim of expanding the product offering to their customers.
The agreement involves the following key areas of cooperation: mortgages and personal loans underwritten by Intesa Sanpaolo and distributed through the post office network; wealth & asset management products managed by Eurizon Capital SGR; and payment services, including the payment of postal payment slips through the physical and remote channels of Intesa Sanpaolo and Banca 5, including PostePay prepaid cards top-up.
This agreement will allow Poste Italiane and Intesa Sanpaolo to further enhance their product and service customer offering. The agreement is part of Intesa Sanpaolo's distribution strategy, which is based on the multi-channel bank model and on the targeted local coverage to optimise customer proximity.

On 17 April 2018, Intesa Sanpaolo and Intrum signed a binding agreement to form a strategic partnership in respect of non-performing loans (NPLs), involving two transactions:

- the creation of a leading servicer in the Italian NPL market, through the integration of the Italian NPL platforms of Intesa Sanpaolo and Intrum, with the following features:
    - around 40 billion euro serviced;
    - 51% of the new platform to be held by Intrum and 49% to be held by Intesa Sanpaolo;
    - a 10-year contract for the servicing of Intesa Sanpaolo's bad-loan portfolios, with terms and conditions in line with market standards;
    - major commercial development plans for the new platform in the domestic market;
    - around 1,000 employees involved, including around 600 people from the Intesa Sanpaolo Group, in respect of whom discussions will be held with the Trade Unions also with the aim of enabling the partnership to further enhance the human resources concerned;
- disposal and securitisation of a sizeable bad-loan portfolio of the Intesa Sanpaolo Group – a landmark transaction for the Italian market – amounting to 10.8 billion euro of gross book value at a price in line with the carrying value already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario.
  The capital of the securitisation vehicle will be structured as follows, in order to obtain the full accounting and regulatory derecognition of the portfolio at the closing date (expected in November 2018):

- o a Senior Tranche equivalent to 60% of the portfolio price, to be underwritten by a pool of leading banks;
- o Junior and Mezzanine Tranches equivalent to the remaining 40% of the portfolio price, to be underwritten by a vehicle (51%) – owned by Intrum and one or more co-investors, but that will act as a single investor for governance purposes – and by Intesa Sanpaolo (49%).

These transactions, which are subject to authorisations being received from the competent authorities, envisage a valuation of around 0.5 billion euro for Intesa Sanpaolo's servicing platform and around 3.1 billion euro for the bad-loan portfolio to be securitised.
The agreement underpins the de-risking strategy envisaged by Intesa Sanpaolo in its 2018-2021 Business Plan and will result in:

- reduction in the gross NPL ratio to below 10% (to 9.6% from 11.9%, based on 2017 year-end figures);
- proven ability of Intesa Sanpaolo to dispose of a sizeable amount of NPLs at no extraordinary cost to shareholders;
- a net capital gain of around 400 million euro in the consolidated income statement;
- satisfaction of the Regulators' expectations in respect of reduction of NPLs of Italian banks;
- possible further improvement in the recovery on the bad-loan portfolio retained by Intesa Sanpaolo due to the partnership with a leading international player, benefiting from combined skills, capabilities and resources;
- potential future value creation through the development of a best-in-class platform in Italy, which is one of the largest European markets for NPL servicing.

Starting from the Half-yearly Report as at 30 June 2018, in view of the presence of a binding offer, approved by the Board of Directors of Intesa Sanpaolo on 17 April 2018, and given that the scope of the sale and the related price have been precisely defined, the portfolio of bad loans in question has been reclassified under discontinued operations, as it is no longer included in the balance sheet caption relating to loans to customers. Starting from the reclassification under discontinued operations, this portfolio has been aligned to the price agreed during the negotiations, since its book value will be recovered through a sale transaction and not through collection.

On 26 April 2018, the sale was finalised of Nuovo Trasporto Viaggiatori (NTV) to Global Infrastructure Partners III funds (GIP), a major international investor specialised in transportation and energy infrastructure. The sale followed on from the sale agreement signed on 11 February 2018 by Intesa Sanpaolo and the other shareholders of NTV with the counterparty.
The agreement envisages the sale of 100% of NTV for an amount of 1,940 million euro, and also provides for the current shareholders of NTV to receive the dividend of 30 million euro, on the 2017 results, approved by the shareholders' meeting on 19 January 2018. Lastly, GIP will incur the expenses relating to the interruption of the listing on the Borsa Italiana stock market up to a maximum of 10 million euro. As a result, the total price for the acquisition of the entire share capital is 1,980 million euro. Intesa Sanpaolo held an equity interest of 18.81% in the share capital of NTV, which it had classified in the Fair Value Through Profit or Loss (FVTPL) category, upon the introduction of IFRS 9. For the Interim Report as at 31 March 2018, the equity interest had already been measured based on the sale price agreed, with the difference compared to the previous carrying amount recognised through profit or loss. Taking into account the estimate of the cost of the transaction and the related tax effects, a net positive amount of 246 million euro was recognised through profit or loss for the first quarter of 2018.

On 27 April 2018, the Meeting of Ordinary Shareholders, in addition to approving the 2017 Annual Financial Statements of the Parent Company, the allocation of the profit for the year and the distribution to shareholders of a dividend and of part of the share premium reserve, as per the specific proposal included in the 2017 Annual Financial Statements, also approved the following in the ordinary session, in addition to the remuneration policies for 2018, as described in the Report on Remuneration:

- the 2018-2021 POP (Performance Based Option Plan) Long-term Incentive Plan for Top Management, Risk Takers and Key Managers in Italy. More specifically, the POP Plan, aimed at aligning managers who have a direct impact on the achievement of the business goals to the objectives of the 2018-2021 Business Plan, within the framework of prudent risk management, is based on financial instruments linked to shares (call options) and subject to the achievement of the key performance conditions of the Business Plan.
  As indicated below, on 11 July 2018 the POP Options were assigned to each beneficiary at a strike price of 2.5416 euro, calculated on the basis of the arithmetic average of the Volume Weighted Average Price (VWAP) of the Intesa Sanpaolo ordinary shares recorded on each business day in the 30 calendar days preceding the assignment. The POP Options will be exercised automatically upon expiration of the Plan in 2022, in the event of:
  - o a positive difference between the end price, calculated in the last year of the Plan, and the strike price;
  - o the maintenance in each year of the Plan of the levels required by the activation conditions;
  - o the achievement of the floor required for the performance conditions at 2021.

  In particular, the POP Plan provides for the application of performance conditions in line with the key objectives of the Business Plan for the determination of the number of POP Options to be exercised on maturity. The indicators, whose target values are those set in the Business Plan at 2021 (end of the Plan), are:
  - o Non-Performing Loans (NPL) Ratio;
  - o Operating Income/Risk Weighted Assets Ratio (OI/RWA).

  The entire amount accrued will be paid in shares over a multi-year time horizon (with deferrals of different duration depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions in those years when they are envisaged).
  Intesa Sanpaolo launched the Plan in June and signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transfers to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP options expire, and JP Morgan thereby takes on all the volatility risks associated with the Plan.

- the financial instrument-based incentive plan called Leveraged Employee Co-Investment Plan – LECOIP 2.0, for employees (Professionals and Managers in Italy, except for Top Management, Risk Takers and Key Managers who are beneficiaries of the POP Plan). More specifically, the LECOIP 2.0 Plan, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In summary, the LECOIP 2.0 Plan provides for:
  - the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment ("Free Shares");
  - the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment ("Matching Shares") and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price ("Discounted Shares").

  The certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.

  The related capital increases were carried out on 11 July 2018, as detailed below in this chapter.

Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

In the extraordinary session, the Shareholders' Meeting of 27 April 2018 also:
- approved the mandatory conversion of the outstanding savings shares – following the cancellation of 61 savings shares by an authorised intermediary, with the reduction of those shares to 932,490,500 – into 969,790,120 newlyissued ordinary shares of the Company, with regular economic rights and the same features of the ordinary shares outstanding at the conversion date, at a conversion ratio of 1.04 ordinary shares for each savings share with concurrent removal of the indication of the nominal value of all of the shares of Intesa Sanpaolo S.p.A. outstanding as at the relative date of effectiveness of the conversion, pursuant to Article 2328 and 2346 of the Italian Civil Code, so that the share capital remains unchanged and divided into only ordinary shares;
- established that the mandatory conversion of the savings shares under the item above (and therefore also the effectiveness of any withdrawals that may be exercised by the savings shareholders entitled thereto and of the cancellation of the 61 savings shares) take place subject to:
  - the approval of the mandatory conversion, along with the relative amendments to the Articles of Association, pursuant to Article 146, paragraph 1, letter b) of Legislative Decree no. 58 of 24 February 1998 by the special meeting of the savings shareholders;
  - the authorisations of the European Central Bank required under the current legal and regulatory framework, for the purposes of the amendments to the Articles of Association, the inclusion of the ordinary shares that are issued in connection with the conversion in the CET 1 and the possible purchase by the Company of own shares at the end of the liquidation procedure relating to withdrawing shareholders; and
  - the amount owed to those who elect to exercise the withdrawal right not exceeding 400 million euro at the end of the pre-emption and pre-emptive rights offering period concerning any offer to the Intesa Sanpaolo shareholders of the shares held by the withdrawing savings shareholders pursuant to Article 2437-quater, par. 1 and 2 of the Italian Civil Code;
- approved the necessary and consequent amendments to the Company's Articles of Association;
- authorised the Board of Directors to sell any own shares of the Company that may be bought as a consequence of the exercise of the right of withdrawal, at the end of the payment process pursuant to Article 2437-quater of the Italian Civil Code.

The Shareholders' Meeting granted powers, pursuant to Article 2443 of the Italian Civil Code, to the Board of Directors of Intesa Sanpaolo, for the implementation of the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments, to carry out:
- a share capital increase without payment, in one or more tranches, by 27 October 2019, pursuant to Article 2349, paragraph 1, of the Italian Civil Code, for a maximum amount of 400,000,000 euro (inclusive of share premium) with the issuance of up to 170,000,000 ordinary shares of Intesa Sanpaolo;
- a share capital increase with payment, in one or more tranches, by 27 October 2019, for a maximum amount of 1,200,000,000 euro (inclusive of share premium, and net of discount), excluding option rights in favour of the employees of the Intesa Sanpaolo Group, with the issuance of up to 555,000,000 ordinary shares of Intesa Sanpaolo. The share issue price will be inclusive of a discount from the market price of ordinary shares of Intesa Sanpaolo, calculated as the average of market prices observable in the 30-day period immediately prior to the issue date.

The Special Meeting of Savings Shareholders – held on 27 April after the Meeting of Ordinary Shareholders – approved, to the extent of its responsibility, the resolution passed in the extraordinary session, item 1 on the agenda, of the Meeting of Ordinary Shareholders, as reported above.

Since the European Central Bank also authorised the amendments to the Articles of Association for the inclusion in the CET 1 of the ordinary shares issued as part of the conversion and the possible purchase of the company's own shares at the end of the liquidation procedure for the withdrawing shareholders, the transaction was subject to the condition that the amount owed to those electing to exercise the withdrawal right must not exceed 400 million euro. The right of withdrawal, which could be exercised by 6 June 2018 at a unit liquidation value of 2.74 euro for each savings share, was duly exercised for a total of 15,065,081 savings shares (below the "Shares"), equal to a total liquidation value of 41,278,322 euro, which therefore

enabled the Company to carry out the mandatory conversion, regardless of the outcome of the offer on a pre-emption rights basis indicated below.
The Shares were offered on a pre-emption rights basis to all Intesa Sanpaolo savings shareholders who did not exercise the right of withdrawal, as well as to the ordinary shareholders of Intesa Sanpaolo, in proportion to the number of shares held at the close of day on 19 June 2018 (record date) and, therefore, with each of those shares being assigned a pre-emption right in accordance with a ratio of 1 Share per 1,113 option rights. The Shares were offered on a pre-emption rights basis at a price of 2.74 euro each, corresponding to the liquidation value indicated above.
At the end of the pre-emption and pre-emptive rights offering period, which terminated on 17 July 2018, pre-emption rights were exercised in relation to 37,061 Shares and pre-emptive rights were exercised in relation to 71,392 Shares. Following the expiration of the term for exercising the right of withdrawal (6 June 2018) and the date on which the number of shares offered in the context of the Offering was communicated pursuant to Article 2437-quater of the Italian Civil Code (18 June 2018), additional withdrawal statements were received in relation to 5,396 shares of the Company that were sent by the abovementioned term of 6 June 2018; therefore, the right of withdrawal has been exercised in relation to a total of 15,070,477 shares.
In view of the outcome of the Offering and, as previously announced, given the overall amount of exercised withdrawal rights, the condition precedent to the execution of the mandatory conversion has been formally satisfied. The condition stipulates that the amount owed to those electing to exercise the withdrawal right must not exceed 400 million euro at the end of the offering period relating to the Shares.
As a result of the Offering, 14,962,024 shares following withdrawal remain, the value of which is equal to 40,995,946 euro.
The Company shall announce in accordance with provisions of law: (i) the subsequent methods of liquidation in relation to the remaining Shares following the Offering that the Company deems more appropriate and (ii) the terms and methods of settlement of the Shares purchased following the exercise of the pre-emption and pre-emptive rights.

On 8 May, the Board of Directors of Intesa Sanpaolo approved the merger by incorporation of Intesa Sanpaolo Group Services and on 22 May 2018 the mergers by incorporation of Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio del Veneto and Cassa dei Risparmi di Forlì e della Romagna.

On 8 June 2018, the Board of Directors of Intesa Sanpaolo decided to launch the Long-term Incentive Plans, based on financial instruments, approved at the Shareholders' Meeting held on 27 April 2018, described above. Specifically, the Board decided to exercise its powers, granted by the shareholders at the Meeting, to carry out a capital increase, for the benefit of the Group employees, in order to implement the 2018-2021 LECOIP 2.0 Long-term Incentive Plan. The capital increase will be:
- without payment, for a maximum amount of 400,000,000 euro (inclusive of share premium) through the issue of a maximum number of 170,000,000 Intesa Sanpaolo ordinary shares ("Free Shares");
- with payment, with the exclusion, pursuant to Article 2441, Paragraph 8, of the Italian Civil Code, of the option right, for a maximum amount (inclusive of share premium), net of a discount at issue, of 1,200,000,000 euro, through the issue of a maximum number of 555,000,000 Intesa Sanpaolo ordinary shares and applying a maximum discount of 18.5% to the stock market price calculated as the average of the prices recorded in the 30 days prior to the issue date ("Matching Shares").

On 25 June, the period ended for exercising the right to withdraw from the subscription to the offer of the Certificates issued by J.P. Morgan and reserved for Professionals and Managers employed by the Group in Italy under the Incentive Plan. A total of 55,229 Group employees, 81.1% of those eligible, have participated in LECOIP 2.0 for a countervalue of Free Shares and Matching Shares equal to around 184 million euro.
The launch of the 2018-2021 Long-term Incentive Plans and, therefore, of the capital increase to service the LECOIP 2.0 Plan, took place on 11 July 2018. On 11 July, a total of 25,147,152 Free Shares and 47,411,243 Matching Shares were assigned to the Group's employees, and 507,908,765 Discounted Shares were subscribed by the Group's employees. The numbers were calculated on the basis of the arithmetic average of the Volume Weighted Average Price (VWAP) of the Intesa Sanpaolo ordinary shares recorded on each business day in the 30 preceding calendar days, which is equal to 2.5416 euro. Consequently, a total of 72,558,395 Certificates – corresponding to the abovementioned sum of Free Shares plus Matching Shares – were assigned to the Group's employees.

As mentioned earlier above, following the delegation of powers granted by the Shareholders' Meeting to the Board of Directors, the following were also carried out on 11 July:
- a share capital increase without payment for an amount of 87,959,908.40 euro, through the issue of 169,153,670 Intesa Sanpaolo ordinary shares with a nominal value of 0.52 euro;
- a share capital increase with payment – with the exclusion of the option right, in favour of the Intesa Sanpaolo Group's employees – for an amount of 264,112,557.80 euro, through the issue of 507,908,765 Intesa Sanpaolo ordinary shares at a price of 2.1645 euro (applying a discount of 14.837% to the abovementioned arithmetic average of the VWAP recorded in the 30 calendar days preceding 11 July 2018), of which 0.52 euro of nominal value and 1.6445 euro of share premium;

with consequent increase in share capital from 8,731,984,115.92 euro to 9,084,056,582.12 euro, divided into 16,536,849,020 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. The total number of shares issued in the capital increase without payment and the capital increase with payment represents 4.1% of the ordinary share capital and 3.9% of the total share capital (comprising ordinary shares and savings shares) of Intesa Sanpaolo after the capital increase.
The capital increase with payment led to an increase in the Intesa Sanpaolo Group's consolidated shareholders' equity of 1,099 million euro, of which 264 million in share capital and 835 million in share premium reserve, and generated an increase in the Group's Common Equity Tier 1 ratio of 45 basis points on the basis of the figures as at 30 June 2018.
Lastly, it should be noted that following the decision taken by the Board of Directors on 8 June 2018 in respect of the 2018-2021 POP Long-term Incentive Plan, Intesa Sanpaolo signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transfers to JP Morgan the obligation to deliver to the

Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP options expire, and JP Morgan thereby takes on all the volatility risks associated with the Plan.

After the end of the first half, on 3 July 2018, the Board of Directors of Intesa Sanpaolo approved the merger by incorporation of Banco di Napoli into Intesa Sanpaolo.
The merger by incorporation of Cassa di Risparmio del Veneto and of Cassa di Risparmio del Friuli Venezia Giulia into Intesa Sanpaolo took effect from 23 July, with accounting and tax effects starting from 1 January 2018.
Moreover, on 24 July 2018, the Board of Directors of Intesa Sanpaolo approved the merger by incorporation of IMI Investimenti.

The 2018-2021 Business Plan

Intesa Sanpaolo achieved excellent results during the 2014-2017 Business Plan and laid the foundations for being highly competitive in the years to come, through a major transformation of its model business and significant investments in digital technology.
The new 2018-2021 Business Plan seeks to maintain solid and sustainable value creation and distribution for Shareholders and to build the #1 Bank in Europe.
The Group also aims to strengthen its leadership in Corporate Social Responsibility and leave a positive impact on society, while also increasing its own internal inclusion, without any discrimination.
In a new highly digitalised and competitive world, the Bank will continue to pursue its goals by leveraging its values and the proven ability of a results orientated delivery machine.
The pillars of the 2018-2021 Business Plan are:
- Significant de-risking at no cost to Shareholders;
- Cost reduction through further simplification of the operating model;
- Revenue growth capturing new business opportunities.

The enablers are our people, who continue to be Intesa Sanpaolo’s most important resource, and the completion of the digital transformation.

De-risking
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the cost of credit by reducing the level of gross non-performing loans as a proportion of total loans.
One of the most important de-risking initiatives is the Bank’s strategic decision to *carve-out of a state-of-the-art loan recovery platform*, in order to further strengthen the servicing platform. In this regard, as stated earlier above, on 17 April Intesa Sanpaolo and Intrum signed a binding agreement to form a strategic partnership in respect of non-performing loans (NPLs), which involves the creation of a leading NPL servicer. The transaction involves the integration of the Italian NPL platforms of Intesa Sanpaolo and Intrum (which will own 51% of the new vehicle) and the employment of 1,000 employees, of which around 600 from the Intesa Sanpaolo Group. This will enable the further improvement of the recovery of the portfolio of bad loans not sold by Intesa Sanpaolo, in addition to establishing significant commercial development plans for the new platform on the Italian market.
Another de-risking initiative involves the *sale of non-performing loans at book value,* as described above, which, again as part of the agreement with Intrum, envisages the sale and securitisation of a significant portfolio of bad loans of the Intesa Sanpaolo Group, amounting to 10.8 billion euro, before adjustments, at a price in line with their carrying amounts.
With regard to the Retail Prevention and Management process, a new method has been introduced for managing Retail loans under stress or already non-performing, through the creation of the *Pulse Platform*, aimed at carrying out collections and offering contractual solutions to customers in difficulty. After having completed the testing in the first half of the year, the new process was extended to the entire Banca dei Territori on 2 July.
As part of the Group's de-risking activities, the project to *Scale-up proactive credit portfolio management* aims to monitor risk positions to prevent them from sliding into Stage 2 or unlikely-to-pay status. During the first half of the year, the operating structure was redesigned, priority areas for improvement were identified and the process for monitoring risk positions was established. In the same period, the level of gross unlikely-to-pay loans of Businesses/Corporates fell by more than 700 million euro compared to 2017, down to around 13.2 billion euro.

Cost reduction
Cost reduction is the second Pillar of the Plan, through which the Group aims to reduce both fixed and variable costs.
The *Workforce reduction and renewal* project envisages the achievement of a series of coordinated objectives within the Plan Period in terms of reduction in labour costs (from 6.0 to 5.8 billion euro) and personnel (from 97,400 to 90,800 people), as well as reskilling (for around 5,000 people). In the first half of the year, labour costs amounted to around 2.9 billion euro, while the total workforce decreased to 94,829 people. The reskilling process has so far resulted in the identification of staff to be allocated to priority activities for the Group, such as the Pulse project, the NPL Plan and the marketing of protection products.
The *Branch strategy* project involves the streamlining of the network of bank branches alongside the integration with alternative physical and virtual distribution methods. A total of 173 branches were closed during the half year and the programme of update/renewal of the self-banking terminals continued. Banca 5 was developed in terms of network (approximately 3,000 non-captive points of sale already operating under the new commercial model), range of services, customer base (17,000 apps downloaded, 13,000 cards issued) and commercial integration with Poste Italiane (renewed agreement on postal payment slips and Postepay). With regard to the digital channels, the development of the online branch and the Group's multi-channel platform continued with the introduction of new customer journeys, in addition to the launch of the Proximity Marketing project and the strengthening of the Digital Advertising initiatives. As part of the development of the remote offering of credit products, Banca Popolare di Vicenza S.p.A. in compulsory administrative

liquidation accepted the offer made by Intesa Sanpaolo for the purchase of the former Bpvi Multicredito. With regard to the integration with third-party networks, the work continued, under the distribution agreement with Poste Italiane, aimed at bringing the Group’s mortgage loans (by the end of the year) and other loan products (in 2019) to the Poste Italiane customers. Despite a reduction in branches, these initiatives have contributed - as a whole - to the increase in the percentage of the Italian population reached by the Group (from 75% to 80% of the total).
The *Real estate scale back* project aims to optimise the Group's physical presence in Italy through the disposal of redundant spaces, the identification of less costly locations and, as regards Milan, the transfer of several management structures, currently operating in various buildings owned or leased, into a single headquarters (“ISP City”). During the first half of the year, the scale back of real estate resulted in the release of approximately 76,000 square metres of surface area and the start of renegotiations of lease payments.
The process of gradual *Corporate simplification* continued with the merger of Banca Nuova (formerly BPVi Group) into the Parent Company, with effect from 7 April. The mergers of Cassa di Risparmio del Friuli Venezia Giulia and Cassa di Risparmio del Veneto were completed on 23 July.
The *Reduction of administrative expenses* project aims to oversee a significant reduction in administrative expenses over the 2018-2021 four-year period by creating a dedicated unit at Group level reporting directly to the CEO. Activities in the first half of the year included: in the ICT area, the completion of the migration of the systems of the former Venetian banks, the renegotiation of maintenance contracts and the insourcing of previously outsourced activities; in the area of structure costs, the internalisation and disposal of outsourced ATMs, the development of integrated logistics and the rationalisation of expenses for business trips and the corporate fleet; and in the area of advertising and advisory services, the launch of systematic monitoring and control of expenditure.

Revenue growth
The third Pillar of the Business Plan seeks to increase operating income by capturing significant business opportunities in all the Divisions.
To achieve its objective of becoming one of the top four Italian P&C insurance companies and the first in retail non-motor, the Group is currently reviewing its strategies for products, pricing and services offered to customers. In terms of the offering, in particular, work is underway for the launch a modular offering ("XME Protezione", already available in some pilot branches and being rolled out throughout the network), in addition to the completion of the motor offering and the enhancement of the protection catalogue in the home and health categories. A marketing drive has also been launched for the “Tutela Business Commercio” product, which provides trade insurance solutions for SMEs. The development of skills and the level of service offered by the consultants of the Banca dei Territori was pursued through targeted training programmes, the introduction of specialists in the field of protection and the creation of new supporting tools for the marketing by the relationship managers (for example, the Top Positioning Ranking, a real-time simulation of the level of pricing competitiveness of the motor business). Lastly, more attention has been given to the after-sales service and claims management (with the latter also having been strengthened through technological innovations such as “video-appraisal” and the opening of claims online) and various communication initiatives have been launched to strengthen the brand identity, including through communication campaigns in the press, TV and the internet.
As part of the strategy of strengthening the leadership in Private Banking, an assessment of the IT platforms was carried out and a study of international best practices was conducted to identify the best development options, with a view to improving the digital customer experience of Banca Fideuram’s customers. A similar project was also launched to update Intesa Sanpaolo Private Banking’s advanced internet banking and trading platforms.
The development of international Private Banking operations will benefit from the already mentioned acquisition of 95% of the Morval Group. The transaction was completed on 10 April and the project for the integration of Banque Morval and ISPB Suisse was launched at the beginning of June (the application to be submitted to the Swiss Supervisory Authority is currently being prepared).
During the first half of the year, the new Geneva branch of ISPB Suisse (the hub chosen for the international development, which will also include the London branch) was opened, the onboarding of new international customers began, and the compliance clearing process for entering new markets was successfully completed (opening of a financial advisory company in Argentina, distribution agreement with companies in the Morval group in Uruguay, and opening of a representative office in Bahrain).
With regard to Asset Management, under the new three-year distribution agreement between Poste Italiane and Intesa Sanpaolo, the outsourced management began for the “BancoPosta Orizzonte Reddito” Fund, in addition to the training and commercial support for the networks of Poste Italiane advisors.
New investment solutions for institutional and wholesale customers were launched, such as the Eurizon Fund Bond Aggregate RMB, and the offering for the Banca dei Territori, Private Banking and Insurance Divisions was expanded with various ad hoc investment products. New “Value Insieme” packages were released to enhance the range of advanced advisory services and studies were launched for the development of innovative solutions for Robo4Advisor and RoboAdvisor. New digital investment services are being set up (e.g. Smart Save and Smart Invest), which customers can access either through the website or via the app.
The introduction of the flexible banking contract, which combines two types of employment relationships (employee and financial advisor), confirms Intesa Sanpaolo as one of the most innovative organisations also in the area of human resource management. The game “Make It Real” was also launched, aimed at recruiting recent graduates to start on a path to becoming a financial advisor. The distribution network was strengthened by enhancing the commercial presence in Germany and Switzerland and the authorisation process is underway for the establishment of the branch in Spain.
Lastly, a “Dealing in securities” licence has been issued by the Hong Kong Supervisory Authority, in addition to the “Advising on securities” and “Asset management” licences, enabling the distribution of mutual funds by Eurizon Capital (HK) Ltd.
The work carried out in relation to Corporate customers focused on the development of a specific offering to support the growth of SMEs, the strengthening of structured and extraordinary finance, support for the international expansion of businesses, the start of the Industrial Dialogue initiative (a new approach that helps Corporate Relationship Managers liaise with entrepreneurs on a more informed basis and to increase the strength of the relationship), and the development of the

supply chain finance offering (Supply Chain Programme and Confirming). A number of activities were carried out to support the growth of SMEs, including the renewal of initiatives aimed at increasing the granting of credit lines and the disbursement of loans and the offering of asset management products to support businesses in managing their liquidity. The “Innovative Start-ups Acquisition” initiative was also launched, aimed at expanding the existing customer base and supporting the banking needs of innovative high-potential start-ups that are not yet customers of the Group.
As part of the development of business with international customers, commercial programmes were established for the expansion of international business and the strengthening of the structures was initiated with the hiring of new staff.
A Corporate Finance unit was set up at Banca IMI for the Banca dei Territori customers. For the Italian Corporates, the focus was on developing the Transaction Banking offering and products for Financial Institutions and Trade & Structured Export Finance. The new organisation of Banca IMI to support the adoption of the Originate-to-Share model was also approved during the half year.
With regard to the Group’s international subsidiary banks, the Hub approach is being extended to South-Eastern Europe (Croatia, Bosnia and Slovenia) and Central Europe (Slovakia, Hungary and the Czech Republic), and a re-focusing of the Group’s presence is underway in Albania, Moldova, Romania and Ukraine. The programme to adopt the Group’s target distribution model was launched in Slovakia, Croatia, Serbia and Hungary: a pilot phase is currently being implemented in the selected branches, with a view to being subsequently rolled out to the entire sales network, through a gradual, step-by-step approach. In June, the Wealth Management advisory service model was introduced in the first pilot branches in Croatia, Slovenia and Hungary, and will soon be launched in Slovakia. The development is underway for the extension of the features and services for the digital channels already active in the banks (Croatia, Hungary and Egypt) and the project has been launched for its adoption in the Albanian bank.
With regard to the development of the Wealth Management business in China, following the issue of new guidelines by the Chinese regulator, the initial Advisory Only service model is being replaced by an integrated offer model, which combines product distribution with advisory services. To this end, the set-up work for the new license has been completed, the content of the website has been defined and the model portfolios to be offered to each customer segment have been fine-tuned. The setting up of the IT infrastructure was also completed during the first half of the year and the website and marketing materials supporting the communication strategy are being finalised. Lastly, the process and tools were finalised for the recruitment of managers and the subsequent provision of their first training and professional development courses.

Enablers
Our People continue to be Intesa Sanpaolo’s most important resource and, in line with the Business Plan strategy, during the first half of the year the Group implemented a series of initiatives dedicated to them.
Two new Incentive Plans were approved and launched, linked to the main indicators of the Plan and aimed at strengthening employee engagement. As mentioned above, the process of subscription and granting of the LECOIP 2.0 Plan for Professionals and Managers was completed and a Performance Option Plan was implemented for Top Managers, Top Risk Takers and Key Managers.
A specific organisational unit has been created for People & Process Care, representing one of the first actions aimed at improving employee satisfaction.
The International Talent Program for the development of the next generation of middle management continued with training programs, managerial mentoring (involving around 50 senior managers of the Group) and personalised career paths. Following the selection of the first 106 participants in 2017, in the first half of the year the collection of applications started for the second edition, which will lead to the selection of a new group of talents by the end of the year.
The training programs were also strengthened for the promotion of distinctive leadership by managers and to extend the digital learning offering to all Group employees, through new content (more than 1,400 Learning Objects available on the various channels), which has facilitated greater access to the training platforms (Apprendo and the School of Managers). To improve the accessibility of the digital mobile offering, the distribution was completed of around 25,000 smartphones to the sales network staff, and the distribution began of around 1,500 tablets to the branches of the former Venetian banks, to bring them in line with the equipment of the Banca dei Territori Network.
The adoption continued of smart working, which improves employee productivity and satisfaction, strengthening their sense of responsibility and promoting a better work-life balance, while also optimising space usage. The development also continued of flexibility initiatives (e.g. “lavoro misto”[3] flexible work employment contract, part-time work, etc.), which maximise the relationship between remuneration and profitability and also facilitate new recruitment to partially cover voluntary redundancies.
Projects have been launched to strengthen the spread of a Global Company culture, with the creation of uniform human resource management systems at Group level, which ensure greater attractiveness and retention for talented individuals and top management, in addition to reducing organisational complexity and providing greater internal flexibility.
Particular attention has been given to implementing solutions designed to ensure managerial continuity in the event of termination of employment relationships for any reason, in order to avoid operational, economic and reputational repercussions.
The second enabler, Digital, will leverage the significant investments made in the previous Business Plan.
With regard to the digital transformation, the development of multi-channel platforms and the launch of new digital products and services continued, with the aim of offering state-of-the-art products to all customer segments. The review of business processes is also underway to achieve the progressive digitalisation of operations, also through Robotic Process Automation (RPA) solutions. With regard to the related project activities – described in more detail in the specific section below – the projects launched in the data management sector are aimed at developing the IT infrastructure to optimise the management of the Bank’s information assets for both regulatory and business purposes. The Big Data Lab, in particular, operates for the development and dissemination of innovative advanced analytics solutions and advanced data science methods. During the first half of the year, projects were developed to support all the main action areas of the Business Plan (de-risking, cost reduction and growth).

[3] Two parallel contracts in place for the same person, one part-time contract as a bank employee and one as a financial advisor.

Particular attention was given to strengthening cyber security practices through a comprehensive approach, which includes cultural, process and training aspects, as well as interventions based on technological solutions. The many initiatives underway include: i) the progressive integration of the Group Companies into the new Cybersecurity Model; ii) the work carried out for making the Intesa Sanpaolo Group GDPR compliant; iii) the further development of the target model for Global Fraud Management; iv) the work on the extension of the Global SOC (Security Operation Centre) to the Group companies; and v) the feasibility study aimed at strengthening business continuity resilience in the new scenarios of database compromise as a result of cyberattacks. The strengthening of collaborations with national and international Working Groups (e.g. CERTFin, CEPS), to promote and develop innovative Cyber Security solutions, also continued.
The company structures responsible for innovation operate in the following areas: i) digital payments & VAS (Value Added Services), to identify and test solutions for the digital evolution of payment services; ii) digital insurance, for the insurance sector; iii) wealth management**,** to analyse new opportunities for the development of Robo4advisor and Personal Finance Management solutions; iv) alternative credit and finance, to investigate and evaluate the testing and possible adoption of new digital lending solutions; and v) operating efficiency, to explore and test solutions capable of accelerating the digital transition for internal operating processes by using new technologies.
In the first half alone, 55 possible innovation initiatives were presented to the Business Units and the Governance Areas in support of the objectives of the Business Plan, 7 of which were included in the implementation plan.

Cultural initiatives

In the first half of 2018, the Art, Culture and Historical Heritage Department pursued and implemented the cultural initiatives and exhibitions of the Culture Project, in accordance with the 2018-2021 Business Plan.
In March, the 18th edition was inaugurated of *Restituzioni*, the programme created in 1989 in which the Bank restores public works of art, with the exhibition *The fragility of beauty* (hosted on this occasion at the Reggia di Venaria in Turin (28 March - 16 September 2018), which has already received 45,000 visitors.
In the first six months of the year more than 250,000 visitors entered the Gallerie d'Italia, consisting of the museum venues in Milan, Naples and Vicenza, also involving over 50,000 students in free visits and educational activities. The Gallerie d'Italia are increasingly becoming one of the key destinations on the cultural itineraries in the cities where they are located.
Three major exhibitions were concluded in the first half of the year at the Gallerie d'Italia: *The last Caravaggio. Heirs and new masters* (Gallerie di Piazza Scala, Milan, 29 November 2017 - 8 April 2018) with 125,011 visitors; *From De Nittis to Gemito. Neapolitans in Paris during the impressionism years* (Gallerie di Palazzo Zevallos Stigliano, Naples, 5 December 2017 – 8 April 2018) with 70,010 visitors; *Grisha Bruskin. Soviet icons* (Gallerie di Palazzo Leoni Montanari, Vicenza, 17 October 2017 - 15 April 2018) with 28,845 visitors.
In the first half of the year, the following exhibitions were opened and are still running at the Gallerie d'Italia: *Art as revelation. From the Luigi and Peppino Agrati collection* (Gallerie di Piazza Scala, Milan, 16 May 2018), *Seduction. Myth and art in Ancient Greece* (*Ancient Times* retrospective, Gallerie di Palazzo Leoni Montanari, Vicenza, 14 February 2018), and the photographic exhibition *Neapolitan metabolism. Luciano and Marco Pedicini* (Gallerie di Palazzo Zevallos Stigliano, Naples, 8 June 2018).
With a view to continued attention to social needs, also in the area of culture, the exhibition *Art awakens the soul* (Gallerie di Piazza Scala, Milan, 29 March - 3 June 2018) focuses on social inclusion and involving people from vulnerable groups in the museum experience.
The Intesa Sanpaolo Skyscraper in Turin (36th floor, Gallerie d'Italia off) hosted the 6th edition of *The Distinguished Guest*: *Madonna and Child by Bronzino* from the Museum and Real Bosco of Capodimonte in Naples (21 December 2017 – 7 January 2018), with 12,095 visitors in just over 10 opening days.
The exhibition venues continued to strengthen their role in providing access to the Bank's art collections and promoting knowledge of national heritage, by producing and organising original exhibitions in collaboration with both national and international institutions.
The exhibitions held in venues other than the Gallerie d'Italia and the Skyscraper included: *Novecento di carta. Drawings and prints of Italian masters from the Milan civic collections and from the Intesa Sanpaolo collections* (Castello Sforzesco, Milan, 23 March 2018, still running); *Paesaggiointerno by Alessandro Papetti*, site specific installation for our *Cantiere del '900* (dossier exhibition at the Miart. International Fair of Modern and Contemporary Art in Milan, of which the Bank has become the main partner, 13-15 April 2018) with 45,000 visitors; and *Dionysus. The thrill of being a god* (*Ancient Times* retrospective, National Archaeological Museum of Reggio Calabria, 9 November 2017 - 25 March 2018) with 37,857 visitors.
The numerous exhibition and cultural projects supported and promoted by the Bank as the main partner, included the following that are worthy of note in terms of importance and results achieved: the exhibition *Inside Caravaggio* (with the masterpiece from the Intesa Sanpaolo collections, the *Martyrdom of Saint Ursula* by Caravaggio, at Palazzo Reale, Milan, which ended on 4 February 2018) with over 400,000 visitors; the 31st edition of the Turin International Book Fair (10-14 May 2018) with 150,000 visitors; the exhibition *Dawn of a Nation. From Guttuso to Fontana and Schifano* (Palazzo Strozzi, Florence, 16 March 2018 and still running), which has received 80,000 visitors to date; and the exhibition *Bernini* (Galleria Borghese, Rome, 1 November 2017 - 4 February 2018) with 169,000 visitors. Through the Culture Project, the Bank provides extensive support to cultural institutions and initiatives throughout Italy.
The main international partnerships include the three-year agreement reached with the Hermitage of St. Petersburg, one of the most prestigious museums in the world, which provides loans from the respective collections, support for exhibition projects, scholarships and research programmes. The Culture Project's collaborations with important international institutions allow the Bank to make an international audience aware of its commitment to art and culture.
In the first half of 2018, 110 works of art from Intesa Sanpaolo collections were given on loan for temporary exhibitions in museums in Italy and abroad.

The promotion of culture and knowledge is a priority and constant commitment, of national, international and social importance. The initiatives of the Culture Project seek to promote Italy's history, identity, cultural tradition, creativity and capacity for innovation, also in its relations with Europe and the world. As can be seen from the activities of the first half, the cultural investments are not just limited to commercial sponsorship, but are also inspired by the responsibility that a large company like ours feels towards our country.

Projects

Numerous projects, in coordination with Intesa Sanpaolo Group Services (ISGS), also continued during the first half of 2018. The main activities carried out in the half-year are illustrated below, with specific regard to those with cross-cutting impacts across the Group, which mainly stem from regulatory obligations, business development opportunities or risk control needs.

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 and disseminating a new way of working based on internal and external cooperation and co-creation, starting from the customers' perspective.
Since its inception, 14 processes have been completed and two are currently being tested on the Network:
- *Digital Wallet and Payment Engine,* to provide a solution, built into IntesaSanpaolomobile's App, that will give simple and immediate access to all the digital services for payments and the sending of cash between private individuals. The App has a specific XME Pay section through which customers can make digital payments to physical and online operators, transfer money between private individuals, and store their personal documents and loyalty cards;
- *Insurance Wallet*, aimed at creating a new multi-guarantee modular insurance product (XME Protezione) for retail customers, which includes the current protections of the policies of the main lines of Intesa Sanpaolo Assicura in the areas of Family, Health and Property.

The redesign is also underway for 3 other processes:
- *Industrial Dialogue*: the working group, whose objective is to develop a tool for the Relationship Managers to help them improve the effectiveness of the corporate customer relationship management and industrial dialogue, completed the preparatory work for the release that took place at the end of June 2018;
- *NPL phase 2*, aimed at enabling the non-performing loan management specialists to assess the sustainability, with a focus on corporate customers, of the debt restructuring through a tool, the Simulator, that provides a structured view of the customer's current situation, the market environment, and future scenarios, using what-if analyses and the bank's rules supporting the negotiation strategy;
- *Remote Manager*: aimed at providing a new "remote" advisory service to customers. The project has begun the development of the support platform for the operations of the Remote Manager which, like the Network Manager, will have its own portfolio of customers for commercial development and product placement.

Big Financial Data (BFD)/Big Data Engine
Within the BFD project, the work on the Big Data Engine, initiated in 2017 and focused on the use of data and the loading of data into the main areas, concentrated on continuing the initiatives already aimed at using the existing data lake in the single data repository and updating the priority business chains with the Big Financial Data (BFD), with a particular focus on regulatory activities. In particular, efforts concentrated on the AnaCredit Project and continuing the work on the Credit Risk Management System (CRMS).
The loading of the data lake continued, with the acquisition of selective data for priority uses based on the needs expressed by the business chains.
The revision of the work plan for the current year, which also includes the launch of specific initiatives for the evolution of the technological framework, is currently being finalised.

G20 Reforms Project
The G20 Reforms project is intended to guarantee the adaptation of the operating model for the Group in order to respond to the regulatory obligations arising from the reforms undertaken by the G20 with regard to investments in financial instruments.
In the *EMIR* area, during the first half of the year the implementation continued of the IT interventions aimed at improving the quality of regulatory reporting and work began on the revision of the methods for performing reconciliations through the introduction of new supporting tools for the sector. The project working groups continued their activities aimed at making the Group compliant with the Initial Margin exchange obligation (including the activities necessary for the request for an intragroup exemption from the Initial Margin exchange).
In the *Dodd Frank Act* area, following the completion of the external assessment, the plan of interventions on processes and systems was implemented, with the completion of the highest priority actions by the end of June. The process for reconstructing operations following a possible request from the Regulator (Pre-Trade Reconstruction obligation) is being strengthened.
In the *Volcker Rule* area, developments were completed for the extension of the automatic monitoring of positions held in funds and structured products to Eurizon and the Group's insurance entities. The Governance Guidelines have been established for the Volcker Rule and the preparation of automatic reporting for the conduct of controls at the ISP NY Branch has been completed. The actions identified following the external assessment are in the final phase.

Cyber Security Program
Following the closure of the Cyber Security Program at the end of 2017, the *Intesa Sanpaolo Security Plan* for 2018 was drawn up in line with the new security regulatory framework. The plan includes the final report on the 2017 activities and the work plan for 2018, as well as details of the Cybersecurity Business Plan for the period 2018-2021, its underlying strategy and the investments needed to support it.

The IT Security Plan was presented to the Board Committees on 22 March 2018 and approved by the Board of Directors of Intesa Sanpaolo during the meeting held on 4 April 2018. This plan is consistent with the provisions of the Group Business Plan and in particular it envisages the implementation of the Group Cybersecurity Strategy, with several priority objectives: (i) strengthening and devising security measures for the "digitalisation" of the Group's services; (ii) extending the measures already implemented at Parent Company level to the Group entities; (iii) implementing integrated management of cyber risks, in line with the Group's Risk Appetite Framework (RAF); (iv) systematically employing the most innovative technologies; and (v) adopting a proactive role as an influencer in relation to cyber security issues at international level.
This strategy is based on four main themes (Single Digital Identity, IT Security and Stakeholder Networking Model, Extension and Evolution of Group Controls, and Enhancement of Internal Expertise), which have enabled the definition of the operational projects and the related investments necessary for the implementation of the initiatives set out in the Master Plan.
In the first half of 2018, the main projects were launched, which included: the new IT Security Model; the monitoring of the extension and evolution of the security structures (*Security by design*); the identification of the logical and technological framework and target architecture for the Single Digital Identity; the start of work for the assessment of supplier security; the work for the extension the Global Security Operation Center; the feasibility study aimed at strengthening business continuity resilience; and the awareness and training programme.

New Group Register
The aims of this project, launched in 2016, 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 platform 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.
The new platform is active in PROVIS, ISP Bank Romania and ISP Bank Albania through update feeds, whereas in Mediocredito Italiano it is active on a consultation and management basis as a master platform for querying and managing customer data as a replacement for the Customer Register application. The activations in the other Group Banks will follow in the coming months, according to the established plan, which will conclude with the activation in Intesa Sanpaolo in March 2019.

Processes Integrated Governance
In 2017, the new classification of the Group processes and the new classification of risks and controls, which are closely integrated with each other, were consolidated and a new processes tree was published for Intesa Sanpaolo, Banca IMI, Mediocredito Italiano and Banca Fideuram/Intesa Sanpaolo Private Banking, which has significant simplifications compared to the previous version.
Work also continued on the plan to streamline, simplify and rewrite the process rules that will be completed during 2018, while maintaining a high level of control over the general consistency of the Group's process regulations, ensured through the assistance provided to the companies.

Banca 5 Project
The project aimed at integrating Banca 5 into the Group, while preserving the company's distinctive characteristics, continued with the implementation of the regulatory framework, adapting it where necessary to the specific features of Banca 5.
During the first half of the year, gap analyses were conducted for the IT migration of the banking component to the target clone system.

Data Collection on Credit/Credit Risk (AnaCredit)
EU Regulation 2016/867, issued by the ECB in 2016, introduces a new collection of credit and credit risk data, known as AnaCredit, which requires national central banks to collect harmonised and extremely granular information on loans and guarantees referring, at an initial stage, to counterparties identified as legal entities.
To ensure a framework for the new reporting requirement, a specific project was launched in March 2017 and fully included within the ECB regulatory requirements programme. The new requirement represents a major opportunity for the Group to enhance the target IT architectural model for the entire credit risk area, which can be used for both reporting and management purposes. The Project forms part of the priority areas of the Big Data Engine Programme within the Big Financial Data initiative. The first set of reporting, for the domestic scope, must be prepared and sent to the Bank of Italy with the reporting date of 30 June 2018.

"Lavoro Misto" flexible work (Minotauro Project)
In the Protocol of 1 February 2017 for the sustainable development of the Intesa Sanpaolo Group, the Parent Company Intesa Sanpaolo and the trade unions agreed on the trial – for the first time in Italy – of an innovative working method, referred to as "Lavoro Misto" (flexible work), with the aim of providing a service more oriented to the diverse customer needs and expanding business opportunities.
A "mixed" employment framework was created, for work both as a permanent part-time employee and as a contractor for out-of-branch financial advisory services, to be offered to people from outside the Group, as well as the current Relationship Managers at the Banca dei Territori Division. In the first half of 2018, selections were made among employees and external resources and work was carried out to define new roles and processes. The mixed contract is also due to be activated for ISP Casa and, in this initial phase, the project initiatives are being defined for start-up in the second half of 2018.

Integration of the Aggregate Set into Intesa Sanpaolo
The purpose of the project is to ensure the complete integration of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca and their subsidiaries, as indicated in the Deed of Sale, with the monitoring of progress in specific project initiatives/areas.
In the first half of 2018, after the completion of significant activities at the end of 2017, including the due diligence and the migration to the target, a second project phase was implemented, partly focused on new issues that had emerged. As per the

plan, this new project phase implemented the migration of Banca Apulia, which was completed on 7 April 2018 with the activation of a new dedicated Clone of the Target Information System, and of Banca Nuova, which was integrated into Intesa Sanpaolo through merger by incorporation.
The project organisation was further developed with the setting up of specific initiatives based on the need to monitor activities relating to the CIB service model, Administration and Loans. In particular, with regard to the migration and the alignment to the target model, the identification has been completed of the new IT gaps (with respect to the first migration event) and possible alternative non-IT solutions to minimise the changes required to applications have been completed; the geographical planning has been established; the design of the Business and Retail Network has been consolidated; the list of physical consolidations accompanying the migration has been finalised; and all the communications to customers have been prepared. The plan has also been prepared for the training and mentoring at the Intesa Sanpaolo Branches, based on criteria of geographical proximity, through an ad hoc training platform and procedure simulators to provide training on the Branch operations.
Lastly, the integration of the International Networks (Albania, Croatia, Moldova and Romania) continued and is due to be completed by the end of 2018.

Retail Early Warning System Project

The aim of this project is to strengthen and develop the assessment processes for counterparty risk and the “interception” and “classification” of non-performing loans, through the implementation of an Early Warning System (EWS). This system enables:

- the monitoring of a list of impairment triggers for the classification;
- the calculation and monitoring of a set of indicators that reveal signs of deterioration of credit positions.

In 2017, the system was activated for Retail and Retail SME customers, as part of the progressive rollout of the new Early Warning System to all the regulatory segments. In 2018, the EWS will replace the previous instrument with regard to the overall indication of the status of the counterparties and the risk of deterioration in their credit quality in the short term.

Procurement Centralisation Project – Phase 2

The project was launched during 2018 with the aim of completing the activation of the Group’s centralised procurement model. In particular, for the main companies in Italy, the project seeks to complete the centralisation of the current procurement functions reporting directly to the Procurement Department of the Parent Company, to reconfigure the authorities granted over time and to verify the operating model to be adopted, and, for the international companies, it aims to expand the process of guidance and control through advisory opinions and to centralise the sourcing of the most significant expenses. The project envisages extending the “Supplier Portal” to the companies within the scope, which will help both in centralising sourcing and in qualifying and controlling all the suppliers, in addition to monitoring the contracts.

ENIF - Enabling Integrated Financial Crime

The ENIF project aims to strengthen the control of anti-money laundering and embargoes, by implementing a radical revision of the organisational model and strengthening and rebalancing the staff employed at Group level.
In particular, an assessment of the model was carried out during the first half of 2018. The solutions identified involve centralising the main activities currently carried out at branch level and in the Anti-Money Laundering Head Office Department within a specific Competence Centre. In this regard, support was provided in the preliminary model assessments and the quantification of the workforce involved in the impacted processes.

Half-yearly condensed consolidated Financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		30.06.2018	31.12.2017	Changes	
				amount	%
10.	Cash and cash equivalents	6,928	9,353	-2,425	-25.9
20.	Financial assets measured at fair value through profit or loss	42,751	39,582	3,169	8.0
	a) financial assets held for trading	*39,908*	*39,028*	*880*	*2.3*
	b) financial assets designated at fair value	*209*	*554*	*-345*	*-62.3*
	c) other financial assets mandatorily measured at fair value	*2,634*	*-*	*2,634*	
30.	Financial assets measured at fair value through other comprehensive income	61,840	64,968	-3,128	-4.8
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,229	152,582	-353	-0.2
40.	Financial assets measured at amortised cost	481,214	483,959	-2,745	-0.6
	a) due from banks	*70,277*	*72,057*	*-1,780*	*-2.5*
	b) loans to customers	*410,937*	*411,902*	*-965*	*-0.2*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	682	423	259	61.2
50.	Hedging derivatives	3,473	4,213	-740	-17.6
60.	Fair value change of financial assets in hedged portfolios (+/-)	-34	-204	-170	-83.3
70.	Investments in associates and companies subject to joint control	647	678	-31	-4.6
80.	Technical insurance reserves reassured with third parties	16	16	-	-
90.	Property and equipment	6,665	6,678	-13	-0.2
100.	Intangible assets	7,741	7,741	-	-
	of which:				
	- goodwill	*4,083*	*4,056*	*27*	*0.7*
110.	Tax assets	16,934	16,887	47	0.3
	a) current	*3,853*	*3,688*	*165*	*4.5*
	b) deferred	*13,081*	*13,199*	*-118*	*-0.9*
120.	Non-current assets held for sale and discontinued operations	3,609	627	2,982	
130.	Other assets	9,023	9,358	-335	-3.6
Total assets		**793,718**	**796,861**	**-3,143**	**-0.4**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2018	31.12.2017	Changes	
				amount	%
10.	Financial liabilities measured at amortised cost	522,460	516,360	6,100	1.2
	a) due to banks	*97,675*	*99,989*	*-2,314*	*-2.3*
	b) due to customers	*337,314*	*323,386*	*13,928*	*4.3*
	c) securities issued	*87,471*	*92,985*	*-5,514*	*-5.9*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,413	1,312	101	7.7
20.	Financial liabilities held for trading	39,482	41,218	-1,736	-4.2
30.	Financial liabilities designated at fair value	4	3	1	33.3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	70,337	68,233	2,104	3.1
40.	Hedging derivatives	7,086	7,489	-403	-5.4
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	443	478	-35	-7.3
60.	Tax liabilities	2,121	2,509	-388	-15.5
	a) current	*124*	*364*	*-240*	*-65.9*
	b) deferred	*1,997*	*2,145*	*-148*	*-6.9*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	261	264	-3	-1.1
80.	Other liabilities	12,166	12,247	-81	-0.7
90.	Employee termination indemnities	1,290	1,410	-120	-8.5
100.	Allowances for risks and charges	5,586	5,808	-222	-3.8
	a) commitments and guarantees given	*473*	*327*	*146*	*44.6*
	b) post-employment benefits	*1,141*	*1,104*	*37*	*3.4*
	c) other allowances for risks and charges	*3,972*	*4,377*	*-405*	*-9.3*
110.	Technical reserves	79,842	82,926	-3,084	-3.7
120.	Valuation reserves	-1,366	-1,206	160	13.3
125.	Valuation reserves pertaining to insurance companies	3	417	-414	-99.3
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,351	10,921	2,430	22.3
160.	Share premium reserve	23,940	26,006	-2,066	-7.9
170.	Share capital	8,732	8,732	-	-
180.	Treasury shares (-)	-79	-84	-5	-6.0
190.	Minority interests (+/-)	364	399	-35	-8.8
200.	Net income (loss) (+/-)	2,179	7,316	-5,137	-70.2
Total liabilities and shareholders’ equity		**793,718**	**796,861**	**-3,143**	**-0.4**

Consolidated income statement

(millions of euro)

		30.06.2018	30.06.2017	Changes	
				amount	%
10.	Interest and similar income	5,244	5,196	48	0.9
	of which: interest income calculated using the effective interest rate method	*5,177*	*5,121*	*56*	*1.1*
20.	Interest and similar expense	-1,516	-1,851	-335	-18.1
30.	**Interest margin**	**3,728**	**3,345**	**383**	**11.4**
40.	Fee and commission income	4,978	4,496	482	10.7
50.	Fee and commission expense	-1,152	-976	176	18.0
60.	**Net fee and commission income**	**3,826**	**3,520**	**306**	**8.7**
70.	Dividend and similar income	67	59	8	13.6
80.	Profits (Losses) on trading	290	306	-16	-5.2
90.	Fair value adjustments in hedge accounting	-18	-3	15	
100.	Profits (Losses) on disposal or repurchase of:	417	255	162	63.5
	a) financial assets measured at amortised cost	*-28*	*-18*	*10*	*55.6*
	b) financial assets measured at fair value through other comprehensive income	*416*	*299*	*117*	*39.1*
	c) financial liabilities	*29*	*-26*	*55*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	264	-	264	
	a) financial assets and liabilities designated at fair value	*2*	*-*	*2*	
	b) other financial assets mandatorily measured at fair value	*262*	*-*	*262*	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,791	1,719	72	4.2
120.	**Net interest and other banking income**	**10,365**	**9,201**	**1,164**	**12.7**
130.	Net losses/recoveries for credit risks associated with:	-1,236	-1,581	-345	-21.8
	a) financial assets measured at amortised cost	*-1,233*	*-1,121*	*112*	*10.0*
	b) financial assets measured at fair value through other comprehensive income	*-3*	*-460*	*-457*	*-99.3*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-2	6	
140.	Profits (Losses) on changes in contracts without derecognition	-5	-	5	
150.	**Net income from banking activities**	**9,116**	**7,618**	**1,498**	**19.7**
160.	Net insurance premiums	3,406	3,254	152	4.7
170.	Other net insurance income (expense)	-4,419	-4,267	152	3.6
180.	**Net income from banking and insurance activities**	**8,103**	**6,605**	**1,498**	**22.7**
190.	Administrative expenses:	-4,917	-4,477	440	9.8
	a) personnel expenses	*-2,918*	*-2,686*	*232*	*8.6*
	b) other administrative expenses	*-1,999*	*-1,791*	*208*	*11.6*
200.	Net provisions for risks and charges	-30	-1,951	-1,921	-98.5
	a) commitments and guarantees given	*68*	*-*	*68*	
	b) other net provisions	*-98*	*-1,951*	*-1,853*	*-95.0*
210.	Net adjustments to / recoveries on property and equipment	-181	-166	15	9.0
220.	Net adjustments to / recoveries on intangible assets	-274	-236	38	16.1
230.	Other operating expenses (income)	391	5,162	-4,771	-92.4
240.	**Operating expenses**	**-5,011**	**-1,668**	**3,343**	
250.	Profits (Losses) on investments in associates and companies subject to joint control	20	329	-309	-93.9
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	-	6	-6	
290.	**Income (Loss) before tax from continuing operations**	**3,112**	**5,272**	**-2,160**	**-41.0**
300.	Taxes on income from continuing operations	-916	-21	895	
310.	**Income (Loss) after tax from continuing operations**	**2,196**	**5,251**	**-3,055**	**-58.2**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**2,196**	**5,251**	**-3,055**	**-58.2**
340.	Minority interests	-17	-13	4	30.8
350.	**Parent Company's net income (loss)**	**2,179**	**5,238**	**-3,059**	**-58.4**
	Basic EPS - Euro	**0.13**	**0.31**		
	Diluted EPS - Euro	**0.13**	**0.31**		

Statement of consolidated comprehensive income

(millions of euro)

		30.06.2018	30.06.2017	Changes	
				amount	%
10.	**NET INCOME (LOSS)**	**2,196**	**5,251**	**-3,055**	**-58.2**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**23**	**78**	**-55**	**-70.5**
20.	Equity instruments designated at fair value through other comprehensive income	19	-	19	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-	-	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	6	-	6	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	-2	78	-80	
80.	Non-current assets held for sale	-	-	-	
90.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-923**	**-64**	**859**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	-20	17	-37	
120.	Cash flow hedges	52	161	-109	-67.7
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	-550	-57	493	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	-411	-98	313	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	6	-87	93	
170.	**Total other comprehensive income (net of tax)**	**-900**	**14**	**-914**	
180.	**TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)**	**1,296**	**5,265**	**-3,969**	**-75.4**
190.	**Total consolidated comprehensive income pertaining to minority interests**	**22**	**11**	**11**	
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**1,274**	**5,254**	**-3,980**	**-75.8**

Changes in consolidated shareholders' equity as at 30 June 2018

(millions of euro)

	30.06.2018												
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests
	ordinary shares	savings shares		retained earnings	other								
AMOUNTS AS AT 31.12.2017	**8,541**	**485**	**26,031**	**10,462**	**578**	**-1,281**	**417**	**4,103**	**-86**	**7,354**	**56,604**	**56,205**	**399**
Changes in opening balances (FTA IFRS9)	**-**	**-**	**-**	**-3,278**	**-**	**328**	**-**	**-**	**-**	**-**	**-2,950**	**-2,937**	**-13**
AMOUNTS AS AT 1.1.2018	**8,541**	**485**	**26,031**	**7,184**	**578**	**-953**	**417**	**4,103**	**-86**	**7,354**	**53,654**	**53,268**	**386**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**5,972**						**-5,972**	**-**	**-**	**-**
Dividends and other allocations				**-**						**-1,382**	**-1,382**	**-1,365**	**-17**
CHANGES IN THE PERIOD													
Changes in reserves											-	-	-
Operations on shareholders' equity													
Issue of new shares									7		7	7	-
Purchase of treasury shares									-1		-1	-	-1
Extraordinary dividends			-2,065								-2,065	-2,065	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-110		-4	-168							-282	-256	-26
Total comprehensive income for the period						-486	-414			2,196	1,296	1,274	22
SHAREHOLDERS' EQUITY AS AT 30.06.2018	**8,431**	**485**	**23,962**	**12,988**	**578**	**-1,439**	**3**	**4,103**	**-80**	**2,196**	**51,227**	**50,863**	**364**
- Group	**8,247**	**485**	**23,940**	**12,773**	**578**	**-1,366**	**3**	**4,103**	**-79**	**2,179**	**50,863**		
- minority interests	**184**	**-**	**22**	**215**	**-**	**-73**	**-**	**-**	**-1**	**17**	**364**		

(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.

Changes in consolidated shareholders’ equity as at 30 June 2017

(millions of euro)

	30.06.2017											
	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 1.1.2017	**8,621**	**485**	**27,375**	**8,947**	**578**	**-1,930**	**2,117**	**-74**	**3,200**	**49,319**	**48,911**	**408**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)												
Reserves				**1,538**					**-1,538**		**-**	**-**
Dividends and other allocations				**-**					**-1,662**	**-1,662**	**-1,656**	**-6**
CHANGES IN THE PERIOD												
Changes in reserves										-	-	-
Operations on shareholders' equity												
Issue of new shares Purchase								10		10	10	-
of treasury shares										-	-	-
Extraordinary dividends			-1,343							-1,343	-1,343	-
Changes in equity instruments							1,985			1,985	1,985	-
Derivatives on treasury shares							-			-	-	-
Stock options										-	-	-
Changes in equity investments										-	-	-
Other	-95			42						-53	3	-56
Total comprehensive income for the period						14			5,251	5,265	5,254	11
SHAREHOLDERS’ EQUITY AS AT 30.06.2017	**8,526**	**485**	**26,032**	**10,527**	**578**	**-1,916**	**4,102**	**-64**	**5,251**	**53,521**	**53,164**	**357**
- Group	**8,247**	**485**	**26,006**	**10,408**	**578**	**-1,838**	**4,102**	**-62**	**5,238**	**53,164**		
- minority interests	**279**	**-**	**26**	**119**	**-**	**-78**	**-**	**-2**	**13**	**357**		

(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.

Consolidated statement of cash flows

(millions of euro)

	30.06.2018	30.06.2017
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**2,313**	**7,725**
Net income (loss) (+/-)	2,196	5,251
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	95	-1,041
Gains/losses on financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-131	-661
Gains/losses on hedging activities (-/+)	18	3
Gains/losses on hedging activities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	1,546	1,821
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	455	402
Net provisions for risks and charges and other costs/revenues (+/-)	70	2,026
Net insurance premiums to be collected (-)	14	-3
Other insurance revenues/charges to be collected (-/+)	-406	-444
Taxes, duties and tax credits to be paid/collected(+/-)	492	-295
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
Other adjustments (+/-)	-2,036	666
2. Cash flow from / used in financial assets	**-4,635**	**-64,939**
Financial assets held for trading	-262	-468
Financial assets designated at fair value	25	-
Other financial assets mandatorily measured at fair value	327	-115
Financial assets measured at fair value through other comprehensive income	-2,057	936
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-806	-4,045
Financial assets measured at amortised cost	-3,317	-56,766
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-273	578
Other assets	1,728	-5,059
3. Cash flow from / used in financial liabilities	**4,002**	**57,080**
Financial liabilities measured at amortised cost	5,728	48,120
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	101	30
Financial liabilities held for trading	-1,679	-2,311
Financial liabilities designated at fair value	-17	191
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	3,562	5,247
Other liabilities	-3,693	5,803
Net cash flow from (used in) operating activities	**1,680**	**-134**
B. INVESTING ACTIVITIES		
1. Cash flow from	**16**	**226**
Sales of investments in associates and companies subject to joint control	5	226
Dividends collected on investments in associates and companies subject to joint control	11	-
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-562**	**-1,277**
Purchases of investments in associates and companies subject to joint control	-	-763
Purchases of property and equipment	-69	-258
Purchases of intangible assets	-247	-256
Purchases of subsidiaries and business branches	-246	-
Net cash flow from (used in) investing activities	**-546**	**-1,051**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	6	10
Share capital increases	-107	1,927
Dividend distribution and other	-3,447	-3,005
Disposal/acquisition of minority interests in subsidiaries	-25	-
Net cash flow from (used in) financing activities	**-3,573**	**-1,068**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-2,439**	**-2,253**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	9,353	8,686
Net increase (decrease) in cash and cash equivalents	-2,439	-2,253
Cash and cash equivalents: foreign exchange effect	14	13
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,928**	**6,446**

LEGEND: (+) from (–) used in

(millions of euro)

"A. Operating activities - 3. Cash flow from / used in financial liabilities"	30.06.2018
a) Changes from cash flows from financing activities	6,187
b) Changes from obtaining or losing control of subsidiaries or other companies	26
c) Fair value changes	-355
d) Other changes	-1,856
CASH FLOW FROM / USED IN FINANCIAL LIABILITIES	**4,002**

Explanatory notes

Accounting policies

General preparation principles

The Half-yearly condensed consolidated financial statements as at 30 June 2018 have been prepared in compliance with the requirements of art. 154-ter of Legislative Decree 58 of 24 February 1998. Moreover, they have been prepared in compliance with the IAS/IFRS 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 and in force as at 30 June 2018, as provided for by EU Regulation 1606 of 19 July 2002.
In particular, the Half-yearly condensed consolidated financial statements have been prepared in compliance with IAS 34 requirements, which regulate interim financial reporting.

The accounting standards adopted in preparation of these Half-yearly condensed consolidated financial statements, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have changed compared to those adopted for the Intesa Sanpaolo Group 2017 Annual Report, as already highlighted in the Interim Statement as at 31 March 2017. These amendments derive essentially from the mandatory application, from 1 January 2018, of the following international financial reporting standards:

- IFRS 9 "Financial Instruments", issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, which replaced IAS 39 concerning the rules for the classification and measurement of financial instruments, as well as the related impairment process;
- IFRS 15 "Revenues from contracts with customers", endorsed by the European Commission through Regulation 1905/2016, which led to the cancellation and replacement of IAS 18 "Revenues" and IAS 11 "Construction contracts".

In view of the above, these Half-yearly condensed consolidated financial statements provide details of the new accounting policies of the Intesa Sanpaolo Group and an analysis of the main captions in the financial statements.

With regard to IFRS 9, in view of the particular significance of its impacts, before analysing the new accounting policies, it is worth noting the choices of a "general" nature made by the Intesa Sanpaolo Group in relation to its application:

- the Intesa Sanpaolo Group, as a financial conglomerate primarily engaged in banking activities, has decided to exercise the option of adopting the Deferral Approach (or Temporary Exemption), according to which the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. The deferral of the adoption of IFRS 9 by the companies of the Insurance Division means that, starting from 1 January 2018, different accounting standards need to be applied for the financial assets and liabilities within the Group's consolidated financial statements. In view of the discretion given by the Bank of Italy regarding how this choice and its effects should be presented in the financial statements, the Group has decided to add specific captions to the official consolidated financial statements layouts provided by the 5th update to Circular 262 (effective from 2018) and provide the related disclosures in the Notes to the financial statements, in compliance with the requirements of IFRS 7, and the Amendment to IFRS 4, which are aimed at presenting the requirements for benefiting from the temporary exemption and ensuring compatibility between insurers that apply the temporary exemption and entities that apply IFRS 9.

  More specifically, the following captions have been added to the consolidated financial statement layouts established in the 5th update to Circular no. 262:

  - Balance Sheet - Assets: "Caption 35. Financial assets pertaining to insurance companies measured at fair value in accordance with IAS 39", which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale and any derivatives with a positive fair value, as defined in accordance with IAS 39;
  - Balance Sheet - Assets: "Caption 45. Financial assets pertaining to insurance companies measured at amortised cost in accordance with IAS 39", which includes investments held to maturity and loans to banks and customers, as defined in accordance with IAS 39;
  - Balance Sheet - Liabilities: "Caption 15. Financial liabilities pertaining to insurance companies measured at amortised cost in accordance with IAS 39", which includes amounts due to banks, amounts due to customers and securities issued, as defined in accordance with IAS 39;
  - Balance Sheet - Liabilities: "Caption 35. Financial liabilities pertaining to insurance companies measured at fair value in accordance with IAS 39", which includes financial liabilities held for trading, financial liabilities measured at fair value and any derivatives with a negative fair value, as defined in accordance with IAS 39;
  - Balance Sheet - Liabilities: "Caption 125. Valuation reserves pertaining to insurance companies", which includes valuation reserves on financial assets available for sale, the shadow accounting effects and the related tax impacts.
  - Income Statement: Caption 115. Net income from financial assets and liabilities pertaining to insurance companies in accordance with IAS 39", which includes all the income statement items relating to the subsidiary insurance companies except for net premiums and other net insurance income (expense), which are reported under their own caption, fee and commission income, which is reported together with the similar banking entries, and the "net adjustments/recoveries pertaining to insurance companies in accordance with IAS 39", which are recognised in the specifically created caption 135;
  - Income Statement: Caption 135. "Net adjustments/recoveries pertaining to insurance companies in accordance with IAS 39", which reports any adjustments/recoveries;

- with regard to the methods of presentation of the effects of first-time adoption of the standard, the Group has decided to exercise the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-Time Adoption of International Financial Reporting Standards”, according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. In order to allocate the comparative figures as at 31 December 2017 to the new consolidated financial statement layouts established in the 5th update to the Bank of Italy Circular no. 262, in force from 1 January 2018, the necessary reconciliations have been made, without changing the values, to enable their inclusion in the new captions. Specifically, it should be noted that:
  - the previous captions relating to loans to customers, loans to banks and financial assets held to maturity are all classified under caption “40. Financial assets measured at amortised cost”;
  - those relating to financial assets held for trading and financial assets at fair value are classified in caption “20. Financial assets measured at fair value through profit or loss;
  - those relating to financial assets available for sale are classified in caption “30. Financial assets measured at fair value through other comprehensive income;
  - the previous captions relating to amounts due to banks, amounts due to customers and securities issued have all been allocated to the caption “10. Financial liabilities measured at amortised cost”.

  Attached to these Half-yearly condensed consolidated financial statements are the reconciliation statements that show the details of the allocations made from the previous captions of the official financial statement layouts to the new financial statement layouts established by Circular 262.

With regard to the introduction of IFRS 15, the analyses conducted found that, in general, the accounting treatment of the main cases of revenues from contracts with customers was already in line with the provisions of the new standard and, consequently, no significant impacts were identified at accounting level.
The main effects for the Group will consist of greater disclosure requirements – since the standard requires a wide range of information on the nature, amount, timing and degree of uncertainty of revenues, as well as the cash flows arising from the contracts with customers – whereas there will be no quantitative impacts. In this regard, the Intesa Sanpaolo Group is preparing itself to be able to provide the more detailed disclosure in the 2018 Annual Report, as required by the standard and by the instructions issued by the Bank of Italy in the 5th update of Circular no. 262.

The Half-yearly condensed consolidated financial statements, drawn up in euro as the functional currency, are prepared in condensed form as permitted by IAS 34, and contain the consolidated Balance sheet, the consolidated Income statement, the Statement of consolidated comprehensive income for the period, the Changes in consolidated shareholders’ equity, the consolidated Statement of cash flows and the explanatory notes. They are also complemented by information on significant events which occurred in the period, on the main risks and uncertainties to be faced in the remaining months of the year, as well as information on significant related party transactions.
The amounts indicated in the financial statements and explanatory notes are expressed in millions of euro, unless otherwise specified.

Please note that assets held for sale include the bad-loan portfolio to be sold to Intrum, since the scope of the sale and the price of the assets have already been defined in detail. As this cannot be considered as a “discontinued operation”, the reclassification to assets held for sale only concerned balance sheet data and did not imply the recalculation of the comparison data.

Assets held for sale also include high-risk loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as “bad loans” and/or “unlikely-to-pay loans”, for which the sale contract establishes the option for Intesa Sanpaolo to transfer them to the Banks in compulsory administrative liquidation, up to the date of approval of the financial statements as at 31 December 2020, in exchange for a consideration corresponding to the gross carrying amount of the high-risk loans reclassified net of (i) provisions at the date of execution and (ii) 50% of the adjustments that, based on the IAS/IFRS, Intesa Sanpaolo would have been required to make if the Banks in compulsory administrative liquidation had not had the obligation to purchase the loans.

The Half-yearly condensed consolidated financial statements as at 30 June 2018 are complemented by certification of the Managing Director – CEO and 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 by the Independent Auditors KPMG.

Scope of consolidation and consolidation methods

Scope of consolidation

The consolidated Half-yearly Report 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, structured entities are included when the requisite of effective control recurs, even if there is no stake in the company.
Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the scope of consolidation and are classified based on the provisions of IFRS 9, since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic

interests. Equity investments held, directly or through funds, in companies involved in the venture capital business are also excluded from the line-by-line scope of consolidation.
These equity investments are included in the category of Financial assets measured at fair value through profit or loss. 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.

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.

Compared to 31 December 2017, changes in the scope of consolidation consisted of:

- the inclusion of Eximbank s.a. (Moldova), of which the acquisition of control by Intesa Sanpaolo was subject to the sale to Veneto Banca in compulsory administrative liquidation of the non-performing loans of the investee, as certified by the Panel of Experts following the due diligence envisaged by the contract of 26 June 2017. The deed of sale for these loans was formalised on 28 February 2018 and the transfer of the shares and the registration of Intesa Sanpaolo as a new shareholder was completed on 13 March 2018;
- the inclusion of Morval Vonwiller Holding S.A, a Swiss group engaged in wealth management and fund management, after the acquisition of the group, concluded in the second quarter of 2018;
- the exclusion of Imi Fondi Chiusi Sgr, which is now consolidated at equity, given that the investment is no longer material following the disposal of fund management operations.

The intragroup company transactions during the half included the mergers of Banca Nuova into Intesa Sanpaolo, VUB Factoring into VUB, and Fideuram Fiduciaria and Sirefid into SIREF Fiduciaria, the total demerger of Consumer Finance Holding into VUB and VUB Leasing and the transfer of a business line (including the equity investment in Neva Finventures) from Intesa Sanpaolo to Servizi Bancari.

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 2017 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 this document refer to 30 June 2018.
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 following table lists the companies included in the line-by-line scope of consolidation as at 30 June 2018.

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
1	Banca 5 S.p.A. (formerly Banca ITB S.p.A.)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 30,000,000.00 euro						
2	Banca Apulia S.p.A. (c)	San Severo	San Severo	1	Intesa Sanpaolo	70.41	69.47
	Capital 39,943,987 euro						
3	Banca Comerciala Eximbank	Chișinău	Chișinău	1	Intesa Sanpaolo	100.00	
	Capital Mdl 1,250,000,000						
4	Banca CR Firenze S.p.A.	Firenze	Firenze	1	Intesa Sanpaolo	100.00	
	Capital 418,230,435 euro						
5	Banca IMI S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 962,464,000 euro						
6	Banca Imi Securities Corp	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
	Capital USD 44,500,000						
7	Banca Intesa a.d., Beograd	Novi Beograd	Novi Beograd	1	Intesa Sanpaolo Holding International	100.00	
	Capital RSD 21,315,900,000						
8	Banca Intesa Joint-Stock Company	Moscow	Moscow	1	Intesa Sanpaolo Holding International	53.02	
	Capital RUB 10,820,180,800				Intesa Sanpaolo	46.98	
						100.00	
9	Banca Prossima S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 82,000,000 euro						
10	Banco di Napoli S.p.A.	Napoli	Napoli	1	Intesa Sanpaolo	100.00	
	Capital 1,000,000,000 euro						
11	Bank of Alexandria S.A.E. (e)	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
	Capital EGP 800,000,000						
12	Banka Intesa Sanpaolo d.d (formerly Banka Koper d.d.) (f)	Koper	Koper	1	Intesa Sanpaolo	48.07	
	Capital 22,173,218.16 euro				Privredna Banka Zagreb d.d.	51.00	
						99.07	
13	Banque Morval S.A.	Geneva	Geneva	1	Morval Vonwiller Holding S.A.	100.00	
	Capital 20,000,000 euro						
14	Cassa dei Risparmi di Forlì e della Romagna S.p.A.	Forlì	Forlì	1	Intesa Sanpaolo	94.75	
	Capital 214,428,465 euro						
15	Cassa di Risparmio del Friuli Venezia Giulia S.p.A.	Udine	Gorizia	1	Intesa Sanpaolo	100.00	
	Capital 210,263,000 euro						
16	Cassa di Risparmio del Veneto S.p.A.	Padova	Padova	1	Intesa Sanpaolo	100.00	
	Capital 781,169,000 euro						
17	Cassa di Risparmio di Pistoia e della Lucchesia S.p.A.	Pistoia	Pistoia	1	Cassa di Risparmio di Firenze	74.88	
	Capital 171,846,280 euro				Intesa Sanpaolo	25.02	
						99.90	
18	Cassa di Risparmio in Bologna S.p.A.	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
	Capital 703,692,000 euro						
19	Cib Bank Ltd	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
	Capital HUF 50,000,000,003						
20	CIB Factor Financial Services Ltd in voluntary liquidation	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 50,000,000						
21	CIB Insurance Broker Ltd	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 10,000,000						
22	CIB Investment Fund Management Ltd	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost A.S.	100.00	
	Capital HUF 600,000,000						
23	CIB Leasing Ltd	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 53,000,000						
24	CIB Rent Operative Leasing Ltd	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 5,000,000						
25	Compagnia Italiana Finanziaria - CIF S.r.l.	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
	Capital 10,000 euro						
26	Consumer Finance Holding Ceska Republika a.s.	Prague	Prague	1	Consumer Finance Holding	100.00	
	Capital Czk 86,300,000						
27	Duomo Funding Plc (g)	Dublin	Dublin	2	Intesa Sanpaolo	-	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
28	Epsilon SGR S.p.A.	Milano	Milano	1	Eurizon Capital SGR	51.00	
	Capital 5,200,000 euro				Banca IMI	49.00	
						100.00	
29	Etoile Actualis S.a.r.l.	Paris	Paris	1	Risanamento Europa	100.00	
	Capital 29,709,643 euro						
30	Etoile François Premier S.a.r.l.	Paris	Paris	1	Risanamento Europa	100.00	
	Capital 5,000 euro						
31	Etoile Saint Florentin S.a.r.l.	Paris	Paris	1	Risanamento Europa	100.00	
	Capital 540,720 euro						
32	Etoile Services S.a.r.l.	Paris	Paris	1	Risanamento Europa	100.00	
	Capital 1,000 euro						
33	Eurizon Capital S.A.	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
	Capital 7,557,200 euro						
34	Eurizon Capital SGR S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 99,000,000 euro						
35	Eurizon Slj Capital Ltd	London	London	1	Eurizon Capital SGR	65.00	
	Capital GBP 1,001,000						
36	Fideuram - Intesa Sanpaolo Private Banking S.p.A.	Roma	Torino	1	Intesa Sanpaolo	100.00	
	Capital 300,000,000 euro						
37	Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd)	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 1,000,000 euro						
38	Fideuram Bank Luxembourg S.A.	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 40,000,000 euro						
39	Fideuram Investimenti S.G.R. S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
	Capital 25,850,000 euro						
40	Fideuram Vita S.p.A.	Roma	Roma	1	Intesa Sanpaolo	80.01	
	Capital 357,446,836 euro				Fideuram - Intesa Sanpaolo Private Banking	19.99	
						100.00	
41	Fiduciaria Generale e di Revisioni Contabili Fi.Ge.	Milano	Milano	1	Banque Morval S.A.	60.00	
	Capital 119,000 euro						
42	Financière Fideuram S.A.	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 346,761,600 euro						
43	IMI Capital Markets USA Corp.	New York	New York	1	IMI Investments	100.00	
	Capital USD 5,000						
44	IMI Finance Luxembourg S.A.	Luxembourg	Luxembourg	1	IMI Investments	100.00	
	Capital 100,000 euro						
45	IMI Investimenti S.p.A.	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
	Capital 579,184,200 euro						
46	IMI Investments S.A.	Luxembourg	Luxembourg	1	Banca IMI	100.00	
	Capital 21,660,000 euro						
47	Immobiliare Cascina Rubina S.r.l.(h)	Milano	Milano	1	Risanamento	100.00	
	Capital 1,371,066 euro						
48	IN.FRA - Investire nelle Infrastrutture S.r.l. (formerly IN.FRA - Investire nelle Infrastrutture S.p.A.)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 10,000 euro						
49	Iniziative Logistiche S.r.l.	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
	Capital 10,000 euro						
50	Intesa Leasing (Closed Joint-Stock Company)	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
	Capital RUB 3,000,000						
51	Intesa Leasing d.o.o. Beograd	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
	Capital RSD 960,374,301						
52	Intesa Sanpaolo Assicura S.p.A.	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
	Capital 27,912,258 euro						
53	Intesa Sanpaolo Bank Albania Sh.A.	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
	Capital ALL 5,562,517,674						
54	Intesa Sanpaolo Bank Ireland Plc	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
	Capital 400,500,000 euro						

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
55	Intesa Sanpaolo Bank Luxembourg S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 1,389,370,555 euro						
56	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
	Capital BAM 44,782,000						
57	Intesa Sanpaolo Brasil S.A. - Banco Multiplo	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo	99.90	
	Capital BRL 314,922,234				Intesa Sanpaolo Holding International	0.10	
						100.00	
58	Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC)	New York	Wilmington	1	Intesa Sanpaolo	100.00	
	Capital USD 25,000						
59	Intesa Sanpaolo Group Services S.c.p.A.	Torino	Torino	1	Intesa Sanpaolo	99.91	
	Capital 272,586,637 euro				Fideuram - Intesa Sanpaolo Private Banking	0.01	
					Cassa di Risparmio del Veneto	0.01	
					Banca CR Firenze	0.01	
					Banco di Napoli	0.01	
					Banca Imi	0.01	
					Eurizon Capital SGR	0.01	
					Intesa Sanpaolo Vita	0.01	
					other smaller investments	0.02	
						100.00	
60	Intesa Sanpaolo Harbourmaster III S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 5,000,000 euro						
61	Intesa Sanpaolo Holding International S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
	Capital 2,157,957,270 euro						
62	Intesa Sanpaolo Immobilière S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 350,000 euro						
63	Intesa Sanpaolo Innovation Center S.c.p.a (formerly Servizi bancari S.c.p.a.)	Vicenza	Torino	1	Intesa Sanpaolo	99.94	
	Capital 9,254,940 euro				Banca Imi	0.01	
					Intesa Sanpaolo Group Services	0.00	
					Intesa Sanpaolo Vita	0.01	
					Sec Servizi - Società consortile per azioni	0.01	
						99.97	
64	Intesa Sanpaolo Life DAC (formerly Intesa Sanpaolo Life Ltd)	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
	Capital 625,000 euro						
65	Intesa Sanpaolo Private Bank (Suisse) S.A.	Lugano	Lugano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital CHF 45,000,000						
66	Intesa Sanpaolo Private Banking S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 105,497,424 euro						
67	Intesa Sanpaolo Provis S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 5,525,000 euro						
68	Intesa Sanpaolo RE.O.CO. S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 13,000,000 euro						
69	Intesa Sanpaolo Real Estate S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 2,940,476 euro						
70	Intesa Sanpaolo Romania S.A. Commercial Bank	Bucharest	Bucharest	1	Intesa Sanpaolo	93.46	
	Capital RON 1,156,639,410				Banca CR Firenze	6.27	
					Intesa Sanpaolo Holding International	0.27	
						100.00	
71	Intesa Sanpaolo Sec S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
	Capital 31,000 euro						
72	Intesa Sanpaolo Securitisation Vehicle S.r.l.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 60,000 euro						
73	Intesa Sanpaolo Servitia S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 1,500,000 euro						
74	Intesa Sanpaolo Smart Care S.r.l.	Torino	Torino	1	Intesa Sanpaolo	51.01	
	Capital 1,633,000 euro				Intesa Sanpaolo Vita	48.99	
						100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
75	Intesa Sanpaolo Vita S.p.A. Capital 320,422,508 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	
76	Intesa Sec. 3 S.r.l. Capital 70,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
77	Intesa Sec. Npl S.p.A. Capital 129,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
78	Intesa Sec. S.p.A. Capital 100,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
79	ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
80	ISP CB Pubbico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
81	ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
82	Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	
83	Mediocredito Italiano S.p.A. Capital 992,043,495 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
84	Milano Santa Giulia S.p.A. (h) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	
85	Morval Bank & Trust Cayman Ltd Capital 7,850,000 euro	George Town	George Town	1	Morval Vonwiller Asset Management Co Ltd	100.00	
86	Morval Gestion Sam Monaco Capital 500,000 euro	Monaco	Monaco	1	Morval Vonwiller Holding S.A.	100.00	
87	Morval Società di Intermediazione Mobiliare S.P.A. Capital 2,768,000.04 euro	Torino	Torino	1	Banque Morval S.A.	100.00	
88	Morval Vonwiller Advisor Capital 495,000 euro	Montevideo	Montevideo	1	Southern Group Limited	100.00	
89	Morval Vonwiller Asset Management Co Ltd Capital 2,400,000 euro	Tortola	Tortola	1	Morval Vonwiller Holding S.A.	100.00	
90	Morval Vonwiller Holding S.A.(i) Capital 1,375,000 euro	Sarnen	Sarnen	1	Fideuram Intesa Sanpaolo Private Banking	94.58	
91	MSG Comparto Quarto S.r.l. (h) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
92	MSG Comparto Secondo S.r.l. (h) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
93	MSG Comparto Terzo S.r.l. (h) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
94	MSG Residenze S.r.l. (h) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	
95	Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo Innovation Center	100.00	
96	PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
97	PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Vub Asset Management Spravcovska Spolocnost	100.00	
98	PBZ Leasing d.o.o. Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
99	PBZ Nekretnine d.o.o. Capital HRK 3,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
100	PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
101	Pravex Bank Public Joint-Stock Company Commercial Bank Capital UAH 979,089,723	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
102	Private Equity International S.A. (d) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	85.80	90.90
					IMI Investimenti	8.59	9.10
						94.39	100.00

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT		Votes available (b)
					Direct ownership	% held	
103	Privredna Banka Zagreb d.d.	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
	Capital HRK 1,907,476,900						
104	Qingdao Yicai Wealth Management Co. Ltd.	Qingdao	Qingdao	1	Eurizon Capital SGR	20.00	
	Capital CNY 146,000,000				Fideuram - Intesa Sanpaolo Private Banking	25.00	
					Intesa Sanpaolo	55.00	
						100.00	
105	Recovery Property Utilisation and Services ZRT.	Budapest	Budapest	1	Cib Bank	100.00	
	Capital HUF 20,000,000						
106	Ri. Estate S.r.l. (h)	Milano	Milano	1	Risanamento	100.00	
	Capital 10,000 euro						
107	Ri. Progetti S.p.A. (h)	Milano	Milano	1	Risanamento	100.00	
	Capital 510,000 euro						
108	Ri. Rental S.r.l. (h)	Milano	Milano	1	Risanamento	100.00	
	Capital 10,000 euro						
109	Risanamento Europa S.r.l. (h)	Milano	Milano	1	Risanamento	100.00	
	Capital 100,125,050 euro						
110	Risanamento S.p.A. (h)	Milano	Milano	1	Intesa Sanpaolo	48.88	
	Capital 382,301,504 euro						
111	Romulus Funding Corporation (g)	New York	New York	2	Intesa Sanpaolo	-	
112	Sanpaolo Invest SIM S.p.A.	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 15,264,760 euro						
113	Sec Servizi - Società consortile per azioni	Padova	Padova	1	Intesa Sanpaolo	80.46	
	Capital 25,000,000 euro				Banca Apulia	0.29	
					Banca 5	0.06	
					Intesa Sanpaolo Group Services	0.00	
						80.81	
114	Società Italiana di Revisione e Fiduciaria – S.I.RE.F. S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 2,600,000 euro						
115	Southern Group Limited	George Town	George Town		Morval Vonwiller Holding S.A.	100.00	
	Capital 50,000 euro						
116	Sviluppo Comparto 3 S.r.l.(h)	Milano	Milano	1	Milano Santa Giulia	100.00	
	Capital 50,000 euro						
117	Trade Receivables Investment Vehicle Sarl (g)	Luxembourg	Luxembourg	2	Banca IMI/Duomo Funding		
118	Veneto Banka DD	Zagreb	Zagreb	1	Intesa Sanpaolo	100.00	
	Capital HRK 597,082,000						
119	Veneto Banka Sh.A.	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
	Capital 72,543,750 euro						
120	Vseobecna Uverova Banka a.s.	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
	Capital 430,819,064 euro						
121	VUB Asset Management Sprav. Spol a.s.	Bratislava	Bratislava	1	Eurizon Capital	100.00	
	Capital 4,093,560 euro						
122	VUB Leasing a.s.	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	
	Capital 16,600,000 euro						
123	Willerfunds Management Company	Luxembourg	Luxembourg	1	Morval Vonwiller Asset Management Co Ltd	100.00	
	Capital 170,000 euro						

(a) Type of relationship:

1 - majority of voting rights at Ordinary Shareholders' Meeting;

2 - other forms of control.

(b) Where different from the % portion, the availability of the votes in the Ordinary Shareholders' Meeting is indicated, distinguishing between the effective and potential voting rights, where applicable

(c) Taking into account the payment for future capital increase not subscried by minority shareholders the stake held would be approximately 96%.

(d) On 23/12/2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not carry the right to vote in the shareholders' meeting and their return is dependent on the financial performance of certain investments held in portfolio by Private Equity International.

(e) In March 2009, 9.75% of the share capital of Bank of Alexandria (BOA) was sold to International Finance Corporation (IFC) with the concurrent signing by the parties of a Put&Call Agreement covering the portion sold by Intesa Sanpaolo. It should be noted that, based on the contractual clauses underlying the transaction and failing to meet IFRS derecognition criteria, the percentage of equity investment includes the portion sold, while voting rights were transferred to the buyer.

(f) Minority shareholders are subject to a legal commitment to purchase the remaining 0.93% of share capital.

(g) Company controlled pursuant to IFRS 10, although the Group does not hold any equity stake in the company capital.

(h) Company not subject to the management and coordination activities pursuant to art. 2497 and following of the Italian Civil Code.

(i) Please note that there are put and call option agreements on 5.422% of share capital held by minority shareholders.

The main financial statement captions

The classification and measurement criteria for the financial assets and liabilities presented below relate to the Banking Group, whereas the criteria adopted by the subsidiary insurance companies are discussed in a specific chapter at the bottom of this section. In fact, as a result of the Intesa Sanpaolo Group's decision, as a financial conglomerate primarily engaged in banking activities, to exercise the option of adopting the Deferral Approach, the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts, scheduled for 2021.

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:
- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:
- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed that are originally intended to be sold and are not part of a Hold to Collect and Sell business model;
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCIs (Undertakings for Collective Investment).

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.
Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:
- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

For more information regarding the classification criteria for the financial instruments see the chapter below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section “A.4 – Information on Fair Value” of the Notes to the consolidated financial statements in the 2017 Annual Report, as there were no significant changes in this regard following the introduction of IFRS 9.

Derecognition criteria
Financial assets are derecognised solely if the disposal leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity’s continuing involvement, measured by the exposure to changes in value of disposed assets disposed and to variations in the relevant cash flows.
Lastly, financial disposed assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria
This category includes the financial assets that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:
- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;
- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.
In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders’ equity to net income (loss).

For more information regarding the classification criteria for the financial instruments see the chapter below “Classification drivers for the financial assets”.

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or part, to the income statement.
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.
Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equities included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value" of the Notes to the consolidated financial statements in the 2017 Annual Report, as there were no significant changes in this regard following the introduction of IFRS 9.

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.
Equity instruments are not subject to the impairment process.
See the chapter below "Impairment of financial assets" for more details.

Derecognition criteria
Financial assets are derecognised solely if the disposal leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of disposed assets disposed and to variations in the relevant cash flows.
Lastly, financial disposed assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

3. Financial assets measured at amortised cost

Classification criteria
This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

More specifically, the following are recognised in this caption:
- loans to banks in their various forms that meet the requirements referred to in the paragraph above;
- loans to customers in their various forms that meet the requirements referred to in the paragraph above;
- debt securities that meet the requirements referred to in the paragraph above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains

and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria

Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Measurement criteria

After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest rate method referred to above) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.

The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.

The measurement criteria, as described in more detail in the chapter "Impairment of financial assets", are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.

With regard to the accounting representation of the above measurement effects, the value adjustments for this type of asset are recognised in profit or loss:

- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments to be recognised in the financial statements, at the level of individual loan (or "tranches" of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as "non-performing", like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph "Impairment of financial assets", takes account of forward-looking information and possible alternative recovery scenarios.

Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.

The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.

The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment with time value effects are recognised in net interest income.

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.

In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.
The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
  - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
  - the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

Derecognition criteria
Financial assets are derecognised solely if the disposal leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of disposed assets disposed and to variations in the relevant cash flows.
Lastly, financial disposed assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

4. Hedging transactions

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

Classification criteria: type of hedge
Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.
The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge, which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting.
The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

Recognition criteria
Hedging derivative instruments, like all derivatives, are initially recognised and subsequently measured at fair value.

Measurement criteria
Hedging derivatives are measured at fair value. In particular:
- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (as concerns the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. “Fair value change of financial assets in hedged portfolios” or under caption 50. “Fair value change of financial liabilities in hedged portfolios”;
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.
The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction.
A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.
Effectiveness is assessed at every close of annual or interim financial statements using:
- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macro-hedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. “Fair value change of financial liabilities in hedged portfolios” are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

5. Investments in associates and companies subject to joint control

Classification, recognition and measurement criteria
The caption includes investments in companies subject to joint control and associates.
Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.
Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including “potential” voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates. Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.
If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.
If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

Derecognition criteria
Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

6. Property and equipment

Classification criteria

Property and equipment include land, owner-occupied properties, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.
Property and equipment held for use in the production or supply of goods and services are classified as "Property and equipment used in operations", in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as "Investment property" based on IAS 40.
This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories, and to the real estate portfolio of the Group's real estate companies, including building sites, properties under construction, properties completed for sale and real estate development initiatives, held for sale.
Lastly, property and equipment also include the goods used in financial lease contracts, even though the ownership remains in the books of the lessor.

Recognition criteria

Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.
Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

Measurement criteria

Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.
The investment properties are measured with the fair value method.

For the property and equipment subject to assessment according to the revaluation model:
- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in other comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; instead, in the case where a decrease in a revaluation of the same asset recognised previously in the income statement is reversed, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in other comprehensive income as revaluation excess to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Group's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:
- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying value of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.
If the reasons for impairment cease to exist, a recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying value and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

Derecognition criteria

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

7. Intangible assets

Classification criteria

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

Recognition and measurement criteria

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.
For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.
If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.
In particular, intangible assets include:

- technology related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years. In particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life;
- customer related intangibles represented, in business combinations, by asset management relations and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- marketing related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.
With respect to business combinations, goodwill may be recorded when the positive difference between the consideration transferred and the fair value recognition, if any, of minority interests, and the fair value of shareholders' equity acquired is representative of the future income-generation potential of the equity investment.
If this difference should be negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.

Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. Any impairment losses are determined on the basis of the difference between the recognition value of goodwill and its recoverable amount, if lower. The recoverable amount is equal to the higher between the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are posted in the income statement.

Derecognition criteria

Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

8. Other assets

Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following.

9. **Non-current assets held for sale and discontinued operations and related liabilities**

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within

the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.
The income and charges (net of tax) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

10. Current and deferred tax

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Group companies claimed against taxes payable in future years.
Current tax assets also include tax credits in respect of which the Group companies have requested reimbursement from the applicable fiscal authorities, as well as the sums disbursed on a preliminary basis in the course of disputes with the Tax Authority. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.
Considering the Group’s adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Group companies are managed separately from an administrative standpoint.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, “taxable temporary differences” are differences which will give rise to taxable income in future years while “deductible temporary differences” are those which will give rise to deductible amounts in future years.
Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.
If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by income taxes.
Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders’ equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders’ equity, under specific reserves where so provided (e.g. valuation reserves).
Deferred taxation on equity reserves that will become taxable "however used" is charged against shareholders’ equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited directly to a specific reserve named “Reserve pursuant to Article 21 of Legislative Decree 213/98”, which qualify for deferred taxation, is charged directly against this reserve. No provision is made for reserves subject to taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.
Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.
Deferred taxation on shareholders' equity items of consolidated companies is not recorded in the financial statements if it is unlikely that any tax liability will actually arise, also bearing in mind the permanent nature of the investment.

11. Allowances for risks and charges

Post-employment benefits

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reference date of the financial statements is also adjusted by the fair value of any plan assets.
Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Allowances for risks and charges for commitments and guarantees given

This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.
This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

Other allowances
Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.
Consequently, a provision is recognised when, and only when:
- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.
If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.
The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

12. Financial liabilities measured at amortised cost

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the entity in the capacity of lessee in financial lease transactions.

Recognition criteria
Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.
Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

Derecognition criteria
Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.
Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

13. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value contained in combined contracts, where the host contract is a financial liability, but that are not closely correlated to those contracts. It also includes liabilities determined by short selling generated by securities trading activities and certificates.

Measurement criteria
All financial liabilities held for trading are measured at fair value through profit or loss.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

14. Financial liabilities designated at fair value

Classification criteria
Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

Recognition criteria
These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

Measurement criteria
These liabilities are measured at fair value according to the following rules established by IFRS 9:
- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

Derecognition criteria
The financial liabilities designated at fair value are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

15. Foreign currency transactions

Initial recognition
Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

Subsequent measurement
At every close of annual or interim financial statements, captions in foreign currency are measured as follows:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

Other information

Own shares
Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

Accruals, prepayments and deferrals
Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

Leasehold improvements
The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

Employee termination indemnities
Employee termination indemnities qualify as a "post-employment benefit" classified as:
- a "defined contribution plan" to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a "defined benefit plan", therefore recognised in the financial statements on the basis of the actuarial value determined using the "Projected Unit Credit Method" to the extent of the portions accrued until 31 December 2006.
  These amounts are recognised at their actuarial value determined using the "Projected Unit Credit Method", without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.

The plan's costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments
Share-based payments are recorded in the income statement, with a corresponding increase in shareholders' equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.
In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.
The combination of the two values supplies the fair value of the assigned instrument.
Any decrease in the number of financial instruments granted is accounted for as a cancellation of such instruments.

Employee benefits
Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees.
Employee benefits are divided into:
- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and "extraordinary" benefits);
- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Recognition of revenues and costs
Revenues may be recognised:
- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:
- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
    a) hedging interest-generating assets and liabilities;
    b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
    c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement in the financial year when their distribution is approved;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate are recognised under interest;
- revenues from the sale of financial instruments, determined by the difference between transaction amount paid or received and the fair value of the instrument, are recognised in the income statement at the time of the transaction if the fair value is determinable with reference to effective market quotes, or assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

Use of estimates and assumptions in preparing financial reports

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements.

Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the quantification of the fair value of property and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves.

For some of the types listed above, the main factors subject to estimates by the Group and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve the:
  - determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising the Group, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. Also the cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising the Group, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- to determine the fair value of the properties and valuable art assets specific appraisals have been conducted by qualified and independent companies. Lease rentals, selling prices, discount rates and capitalisation rates were estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences).

The classification drivers for financial assets

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).

The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test

For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows consisting of solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.

The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:

- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.

The standard requires specific analyses ("*look through test*") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a *de minimis* effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, the Intesa Sanpaolo Group uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).

For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.

Business model

With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:

- *Hold to Collect (HTC):* this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- *Hold to Collect and Sell (HTCS):* this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business

model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- *Others/Trading:* this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.
The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.
In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.
In this regard, and in relation to the business models under which the financial assets are held, a specific set of Business Model Rules – approved by the competent levels of governance – define and set out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of the Intesa Sanpaolo Group's business structures.
For the Hold to Collect portfolios, the Group has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.
More specifically, within an HTC business model sales are allowed:
- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - significance is defined as the percentage ratio between the nominal value of the sales and the total nominal value of the instruments held in the portfolio over the period considered.

If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).
With regard to the determination of the "Risks" and the "Reporting" for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter concerning market risk controls apply in principle, and governance measures are established for monitoring the limits of the portfolios classified with HTCS and Other/Trading business models.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.
The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).
After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or variable rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the loan. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate, the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.
Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.
Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions of services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. commissions for facility and arrangement) and, lastly, intragroup costs and income.
With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.
For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.
Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.
As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.
The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

Impairment of assets

Impairment of financial assets

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees issued that must be tested for impairment under IFRS 9.
If there is evidence of impairment, these financial assets – in line with any other assets pertaining to the counterparty – are considered impaired and are included in stage 3. For these exposures, consisting of financial assets classified – in accordance with the provisions of Bank of Italy Circular 262/2005 – in the categories of bad loans, unlikely-to-pay loans and exposures past due by more than ninety days, value adjustments must be recognised equal to their lifetime expected credit losses.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (performing financial instruments), on the other hand, it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of "significantly increased" credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has "significantly increased" – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a "relative" basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have "significantly increased" and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has "significantly increased" since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are considered for the purposes of the transfer between "stages" where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range (or identify them with a specific colour). Since, in general, these systems tend to adopt an "absolute" approach to assessing the counterparty's current riskiness (without therefore placing emphasis on monitoring the credit quality of exposures over time) and since very often no distinction is made between disbursements pertaining to the same counterparty, watch-lists have not been considered suitable for use – on broad scope – for stage assignment, but are adopted on a complementary basis and only in cases where, for particular exposures/portfolios, the information necessary for determining the staging is missing or only partially available.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.

The above-mentioned "relative" change in PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.

The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the "staging" of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the "first-in-first-out" or "FIFO" method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the LGD, such as indirect costs (non-recurring costs) and an additional conservative margin specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 the Intesa Sanpaolo Group refers to the plans at amortised cost for both loans and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

This methodology essentially involves the following:
- each exposure (credit line/securities tranche) is classified in a single stage;
- both the stage assignment and the ECL calculation are made by considering a single forecast macroeconomic scenario (the one considered most likely, and used for other purposes within the Group, including, as already mentioned, for the preparation of the budget and the business plan). The risk parameters of the scenario are adjusted by a specific add-on that takes into account the presence of non-linear effects in the relationship between the risk parameters themselves and the macroeconomic variables. In fact, there is rarely a direct correlation between the macroeconomic forecast trends implicit in the scenario used, on the one hand, and the magnitude of credit losses, on the other, and, consequently, the effects of the single scenario identified must be “corrected” by a specific factor (“Add-On”), which is modelled separately. This add-on is determined based on alternative scenarios (upside or downside scenarios) with respect to the baseline scenario, identified based on benchmark variables, such as the annual average GDP growth rate of several countries (Italy, United States, Germany, France, Spain and the United Kingdom), European and US stock exchange indices, and residential real estate prices in the United States and Italy.

Impairment of non-performing financial assets

Non-performing loans classified as bad loans are subject to the following measurement methods:
- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of forward looking-information, and in particular information relating to the impact of future macroeconomic scenarios;
- analytical-specific assessment, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans with mortgage collateral, for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral);
- inclusion of sales scenarios for disposable bad loans: regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), if the business plan envisages sales of bad loans and those sales have not yet been carried out, the measurement of the disposable bad loans considers the possibility that those loans may also be realised through their sale.

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:
- analytical-statistical measurement, for on-balance sheet exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to include the impacts of future macroeconomic scenarios;

- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios;
- inclusion of sales scenarios for disposable UTP loans: regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), if the business plan envisages sales of UTP loans and those sales have not yet been carried out, the measurement of the UTP loans considers the possibility that those loans may also be realised through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the on-balance sheet exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of future macroeconomic scenarios.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, possible mitigating factors (collateral) and taking into account the financial impact of the estimated recovery time.
  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the historical recoveries and the forward-looking information in accordance with IFRS 9, an approach has been established focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid redundancies, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
  For unlikely-to-pay loans, the valuation is based on a qualitative and quantitative analysis of the borrower’s financial position and on precise assessment of the risk situation.
  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;
- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.
  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status (“vintage”) and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).
  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans.
  The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the “Unlikely-to-Pay Loans” risk status (“Non-Forborne Unlikely-to-Pay Loans” and “Forborne Unlikely-to-Pay Loans”), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.
  For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based

on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

With regard to the inclusion of forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to current economic conditions, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described. In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.
With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its “NPL Guidance” published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management and with a target of reaching an NPL ratio of 10.5% at the end of 2019.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors on 6 February this year, identified significant de-risking as one of its key priorities aimed at enabling the Group to reduce its level of gross non-performing loans to around 6% of the loan portfolio in 2021. To this end, a new “NPL Plan” was prepared and sent to the ECB that envisages, in addition to strengthening activities aimed at the internal recovery of positions, the sale of a significant portfolio of bad loans.
Consequently, the “ordinary” scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy, within the sale limits envisaged in the abovementioned NPL Plan. As a result, and until the finalisation of the expected sale transactions, in order to determine the total expected loss of the exposures, for a defined perimeter of bad loans that have the characteristics of disposability, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from sale, estimated based on market valuations carried out by an external expert, are weighted according to the portion of the portfolio destined for sale, envisaged by the NPL strategy, with respect to the total of the disposable portfolio.
In this context, the perimeter of disposable bad loans was identified within the positions managed by the Loan Recovery Department, taking into account the following exclusion criteria:
- positions for which there are outstanding disputes or litigation (situations where the borrower has taken legal action against the bank to challenge the credit claims or the classification as bad loans);
- positions secured by credit guarantee consortia, because it is costly to precisely identify the guarantees securing the individual credit lines;
- positions granted by Italian banks to companies resident abroad, in view of the operational complexities arising from differences in regulations and operations with respect to the jurisdictions where the borrowers are located;
- securitised positions, because the securitisation structure needs to be dismantled, with the involvement of various stakeholders;
- positions with entities other than the usual households and business (e.g. non-profit organisations);
- syndicated loans, to avoid the involvement of third parties in the sale process, and positions with third party funds or particular facilitations that make the sale process operationally costly.

In particular, the recoverable amount of disposable bad loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that management expects to sell and the percentage that management expects to keep in the portfolio. The “collection amount” was determined according to the ordinary methods adopted by the Group for the impairment of bad loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold (2 million euro) and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the “below-threshold” exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale was carried out by an external expert.
As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.
Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the write-off/deletion of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

- uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- disposal of the loan;
- waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- no waiver of the loan. With regard to the full or partial write-offs without waiver of the loan, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they must be fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

Impairment of investments in associates or companies subject to joint control

At each balance sheet date, the investments in associates or companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.

Qualitative indicators include:

- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, or a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.

The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.

For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.

Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

Impairment of non-financial assets

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.

In order to test its real-estate assets for signs of impairment, the Group conducts an annual analysis of the various real-estate market scenarios. If such analyses bring to light signs of impairment, an appraisal is prepared for the properties for which such signs of impairment have been found.

For other property, equipment and intangible assets (other than those recognised following business combinations) it is assumed that the carrying value normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge, and lead to impairment, in case of damages, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each balance sheet date to assess whether there is objective evidence that the asset may have been impaired.

Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset’s specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.

Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. The amount of any impairment is determined on the basis of the difference between the CGU’s book value and its recoverable amount represented by the higher of the fair value, less costs to sell, and the value in use.

The book value of the CGUs must be determined in a manner consistent with the criterion used to determine their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these form part of the core business.
In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.
On this basis, the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.
Thus, the carrying value of the CGUs consisting of companies that belong to a single operating division (Asset Management, Private Banking, Insurance and International Subsidiary Banks) is determined by summing the individual book values of each company in the consolidated financial statements, namely the contribution to consolidated shareholders' equity and corresponding to their net book value, taking into account any goodwill and intangibles recorded upon acquisition (net of subsequent amortisations and any write-downs) and the consolidation entries. With regard to the determination of the carrying value of the other two divisions (Banca dei Territori and Corporate and Investment Banking), given that the Parent Company and other banks contribute to the management of these divisions, and this subdivision is not represented in the accounting information, the overall carrying value of the CGUs cannot be determined on the basis of book values. As a consequence, the use of operational factors is required to make the subdivision following a detailed allocation of the intangibles and goodwill to the two CGUs in accordance with the available accounting information. The operational driver is identified as the "regulatory capital" determined by the Financial and Market Risks Department structures for each operating division: it represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules. The resulting book values already take into account the effects of any impairment of the individual assets, including those relating to intangible assets with a finite life.
For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.
The value in use of a CGU is determined by estimating the present value of future cash flows that may be expected to be generated by the CGU. These cash flows are determined by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan or other external information available. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity, using an appropriate growth rate "g" for the purposes of the so-called Terminal value. The "g" rate is determined by assuming that the growth factor is the lower of the average growth rate for the forecasting period of the analysis and the average rate of increase in the Gross Domestic Product in the countries where the cash flows are generated.
For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates used incorporate the risk free component and the premiums for the risk associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles. In addition, given the diverse risks of the respective operating areas, different Beta coefficients are used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".
The cash flows produced by the international subsidiaries are estimated in the currency in which they are generated and translated into euro using the spot exchange rate as at the date of the determination of the value in use.

Business combinations
Business combinations are governed by IFRS 3.
The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.
To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.
IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.
The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.
The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.
In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of the fair value of financial instruments, see the chapter "A.4 – Information on fair value" and note that, in the case of shares quoted on active markets, the fair value is represented by the stock exchange price at acquisition date or, should that not be available, the last price available.
Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.
Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32 and IAS 39.
Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.
Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.
If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.
Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.
The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.
In accordance with IFRS 10, acquisitions of further stakes in companies which are already controlled are accounted for as a capital transaction or as a transaction with shareholders acting in their capacity as shareholders. For this reason, the difference between the cost of the acquisition and the book value of the minority stakes acquired is posted to group shareholders' equity; in the same way, the sale of minority stakes without ceding control, does not generate gains or losses in the income statement but is posted to group shareholders' equity.
The following transactions are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business; transactions aimed at acquiring transitory control; transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the business combinations (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in the IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.
Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.
Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:
- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

Insurance assets and liabilities
The Intesa Sanpaolo Group has decided to exercise the option of adopting the Deferral Approach, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. For completeness, an outline is provided below of:
- the classification and measurement criteria for the financial assets and liabilities used by the Group's insurance companies, with more details provided in Part A "Accounting policies" of the Notes to the consolidated financial statements of the 2017 Annual Report. However, a description has not been provided of the recognition and derecognition criteria, because they are essentially in line with the applicable provisions of IFRS 9 and IAS 39;
- the approaches adopted for specific products of the insurance segment.

For details of the treatment of financial statement captions of the insurance companies other than those of a financial nature, see the information provided above, as the companies of the banking group and the companies of the insurance segment use the same accounting policies.

1. Financial assets held for trading

Classification criteria
This category includes financial assets held for trading, essentially represented by debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts also include those embedded in combined financial instruments which are subject to separate accounting when:
- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

Derivatives are stated as assets if their fair value is positive and as liabilities if their fair value is negative. The positive and

negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.
The reclassifications to other categories of financial assets are not permitted unless there is an event that is unusual and highly unlikely to recur in the near term.
In such cases debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of the reclassification. On reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

Measurement criteria
After initial recognition, financial assets held for trading are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. Equities, quotas of UCIs (Undertakings for Collective Investment) and derivative instruments which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

2. Financial assets available for sale

Classification criteria
This category includes the financial assets that do not fall within any of the other categories such as Loans, Financial assets held for trading, Investments held to maturity or Financial assets measured at fair value through profit or loss. In particular, this caption is made up of i) bonds which are not held for trading and which are not included in Loans and Receivables, in Investments held to maturity or measured at fair value through profit or loss, ii) equity investments which are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds as well as iii) the portions of syndicated loans that, from inception, are destined for sale.
In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity. Moreover, debt securities may be reclassified into the category Investments held to maturity as well as under Loans, when there is the intention to hold them in the foreseeable future and when the recognition criteria are met. The transfer value is the fair value at the time of the reclassification.

Measurement criteria
After initial recognition, Financial assets available for sale are measured at fair value, through the recording in the income statement of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the total or partial sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.
Fair value is determined on the basis of the criteria already illustrated for financial assets held for trading.
Equities included in this category and quotas of UCIs (Undertakings for Collective Investment) which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value, are maintained at cost.
Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured as the difference between the carrying value of the asset and its fair value.
Should the reasons for impairment cease to exist, following an event occurred after the registration of the impairment, value recoveries are posted through the income statement in the case of loans or debt securities, and through shareholders' equity in the case of equities. However, the size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

3. Investments held to maturity

Classification criteria
Quoted debt securities with fixed or determinable payments and fixed maturity, which the entity has the positive intention and ability to hold to maturity, are classified in this category.
In the cases provided for by the accounting standards, reclassifications are only permitted towards the category of Financial assets available for sale. If during a year, prior to expiry, more than an insignificant amount classified under this category is sold or reclassified, the remaining investments held to maturity are reclassified as Financial assets available for sale and the portfolio in question may not be used for the next two years, unless the sales and reclassifications:
- are so close to maturity or the financial asset's call date that changes in the market interest rate would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Measurement criteria
After the initial recognition, Investments held to maturity are measured at amortised cost, using the effective interest method.
Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.
Investments held to maturity are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

4. Loans

Classification criteria
Loans include loans to customers and due from banks, both disbursed directly and acquired from third parties, which entail fixed or in any case determinable payments, which are not quoted on an active market and which are not classified at inception in Financial assets available for sale.
The caption Loans to customers also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities subscribed at issue or via private placements, with determined or determinable payments, not quoted in active markets.
Reclassifications to the other categories of financial assets established in IAS 39 are not permitted.

Measurement criteria
After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated applying the effective interest method – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.
The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost. An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.
Loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include bad loans, unlikely-to-pay or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS and EU supervisory regulations.
Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.
Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure.
The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.
The impairment loss is recorded in the income statement.
The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.
Recoveries on impairment include time value effects.
Loans for which no objective evidence of impairment has emerged from individual measurement are subject to measurement of a collective adjustment. Such measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.
Collective adjustments are recorded in the income statement.

5. Financial assets designated at fair value through profit or loss

Classification criteria
The IAS/IFRS endorsed by the European Commission enable the classification as financial instruments designated at fair value through profit or loss of any financial asset thus defined at the moment of acquisition, in compliance with the cases contemplated in the reference regulations.
Reclassifications to the other categories of financial assets are not permitted.
The Group classifies investments with respect to insurance policies in this category.

Measurement criteria
After initial recognition, the financial instruments in question are measured at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

6. Payables and securities issued

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the entity in the capacity of lessee in financial lease transactions.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

7. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at cost, which reflects the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, specifically, the negative value of trading derivatives as well as the negative value of embedded derivatives in combined contracts but which are not closely correlated to the latter. It also includes liabilities determined by short selling generated by securities trading activities and certificates.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and rewards connected to it.

8. Financial liabilities designated at fair value

Classification criteria
Financial liabilities designated at fair value through profit or loss are recorded under this caption, on the basis of the fair value option given to companies by IAS 39, in compliance with the cases contemplated in the reference regulations.
The Group exercised the fair value option for liabilities, designating insurance products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary profit-sharing features. Investments relating to such forms of deposits, as already reported, were also designated at fair value, thereby eliminating or considerably reducing “accounting biases” that would otherwise have arisen from measuring assets and liabilities on the basis of different accounting criteria.

Measurement criteria
These liabilities are designated at fair value through profit or loss.

9. Insurance products
Products for which insurance risk is deemed significant include: temporary first class death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, and certain types of unit-linked policies and damage cover. As regards these products, the IAS/IFRS substantially confirm the national accounting standards concerning insurance.
In brief, IFRS 4 sets forth that:
- gross premiums are to be recorded in the income statement under income; they include all amounts matured during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;
- with respect to gross premiums, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis in accordance with applicable local accounting principles. In accordance with IFRS 4, the Group assesses the adequacy of the carrying amount of recorded liabilities using the Liability Adequacy Test (LAT);
- the insurance products entered under separate management are valued by applying “shadow accounting”, whereby the differences between the carrying value and the market value of securities classified as securities available for sale are allocated to technical reserves as regards the insured parties' portion and to shareholders’ equity as regards the insurance companies' portion. If, on the other hand, the securities are measured at fair value through profit or loss, the difference between the book value and the market value is recorded in the income statement giving rise to a change in technical reserves equal to the amount of the insured parties’ portion;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

10. Financial products included under separate management

Financial products included under separate management, despite their not being subject to significant insurance risk, and which therefore contain discretionary participation features, include the majority of life policies and mixed first branch policies, as well as fifth branch capitalisation policies. These are accounted for according to the principles set forth in IFRS 4:

- the products are shown in the financial statements according to principles that essentially reflect those locally in force on the subject, any premiums, payments and changes in technical reserves being recorded in the income statement;
- as stated in the previous paragraph, shadow accounting is applied to the insurance products entered under separate management which, therefore, have discretionary participation features;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

11. Financial products not included under separate management

Financial products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary participation features, are stated in the financial statements as financial liabilities and are measured at fair value, on the basis of the envisaged option (Fair Value Option), or at amortised cost. These financial products are essentially index-linked policies and part of the unit-linked ones, as well as policies with specific assets not included under separate management. These products are accounted for according to the principles set forth in IAS 39, as summarised below:

- the portion of index- and unit-linked policies that are considered investment contracts are measured at fair value, whereas the specific asset products not included under separate management are measured at amortised cost;
- the income statement does not reflect the premiums relating to these products, but just the revenue components, represented by fees and commissions, and the cost components, comprising provisions and other charges; it also reflects the costs or revenues represented by the changes in the fair value of the liabilities incurred against these contracts. More specifically, the international accounting and reporting standards, contained in IAS 39 and IFRS 15, provide that, for the liabilities designated at fair value, income and costs relating to the products in question be identified and classified under two headings: (i) origination, to be recorded in the income statement at the time the product is issued and (ii) investment and management services, to be amortised over the life of the product which depends on how the service is provided. In addition, as regards specific asset products not included under separate management, incremental cost and income items are included in the calculation of the amount to be amortised;
- the insurance component included in the index- and unit-linked products, where it can be unbundled, is independently valued and recorded.

Other information

Criteria for the preparation of segment reporting

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.
The Intesa Sanpaolo Group's organisational model is structured into six business areas, each with specific operating responsibilities: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition to these operating areas there are the following support structures: Group Treasury, Capital Light Bank and the Head Office Departments concentrated in the Corporate Centre.
The attribution of economic and balance sheet results to the various segments is based on the accounting principles used in the preparation and presentation of the consolidated financial statements. Use of the same accounting standards allows segment data and consolidated data to be effectively reconciled. To represent results more effectively and give a better understanding of the components that generated them, the reclassified income statement for each reporting segment is presented with values that express the contribution made by each segment to the Group's results.
With regard to the measurement of revenues and costs deriving from intra-segment transactions, the application of a contribution model at multiple Internal Transfer Rates for the various maturities permits the correct attribution of net interest income to the divisions.
Specific contractual agreements between the Group companies regulate the application of transfer pricing for economic components relative to transactions which set out the distribution of results between product companies/service units and relationship entities/customer units. Each segment is charged direct costs and, for the part pertaining to it, the costs for services carried out by central structures; these charges for the operating business units are calculated on the basis of services actually rendered, while the costs of guidance and control activities have been allocated to the Corporate Centre. Business units' profits are shown net of the tax effect, calculated by applying the main components underlying the effective tax rate, in line with the Group tax policy.
Business areas are disclosed net of intragroup relations within each area and gross of intragroup relations between different business areas. For each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the instructions provided in the regulations in force. For asset management, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.
To complete segment reporting, the main balance sheet and income statement aggregates referred to the geographical areas in which the Group operates are also given. Geographical areas are defined on the basis of the territorial breakdown of Group activities and take into account the economic and strategic importance and the potential of the reference markets. Three main geographical areas have been identified, based on the residence of the legal entities making up the Group: Italy, Europe and Rest of the World.

Subsequent events

On 3 July 2018, Intesa Sanpaolo approved the merger by incorporation of Banco di Napoli into Intesa Sanpaolo.

As stated in the Executive Summary, the ordinary shares allocated to the employees of the Group for the 2018-2021 LECOIP 2.0 Long-term Incentive Plan were assigned and subscribed on 11 July 2018.
On the same date, following the delegation of powers granted by the Shareholders' Meeting to the Board of Directors pursuant to Article 2443 of the Italian Civil Code, the following were executed:

- a share capital increase without payment for an amount of 87,959,908.40 euro, through the issue of 169,153,670 Intesa Sanpaolo ordinary shares with a nominal value of 0.52 euro;
- a share capital increase with payment - with the exclusion of the option right, in favour of the Group's employees, for an amount of 264,112,557.80 euro, through the issue of 507,908,765 Intesa Sanpaolo ordinary shares at a price of 2.1645 euro (applying a discount of 14.837% to the arithmetic average of the VWAP (Volume Weighted Average Price) recorded in the 30 calendar days preceding 11 July 2018), of which 0.52 euro of nominal value and 1.6445 euro of share premium;

with consequent increase in share capital from 8,731,984,115.92 euro to 9,084,056,582.12 euro, divided into 16,536,849,020 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share.

The merger by incorporation of Cassa di Risparmio del Veneto and of Cassa di Risparmio del Friuli Venezia Giulia into Intesa Sanpaolo took effect from 23 July. The accounting and tax effects start from 1 January 2018.

On 24 July 2018, the Board of Directors of Intesa Sanpaolo approved the merger by incorporation of IMI Investimenti S.p.A.

Economic results

General aspects

A condensed reclassified consolidated income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary and if material, to account for changes in the scope of consolidation.
In particular, as permitted by IFRS 1, the figures from periods prior to the first-time adoption of IFRS 9 have not been restated in respect of the recognition and measurement of financial instruments. Accordingly, the figures from periods prior to the first quarter of 2018 reflect the prescriptions and measurement approach outlined in IAS 39.
In further detail, as previously reported, the 2017 income statement includes the impact of the acquisition, with effect from the third quarter, of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza and Veneto Banca and, with effect from the fourth quarter, of subsidiaries Banca Apulia, Banca Nuova, Veneto Banka (Croatia), Veneto Banka Sh.a (Albania), Sec Servizi and Servizi Bancari (hereinafter also the "Aggregate Set").
Considering the particular case in question, no adjustments were made to the historic data in the reclassified income statement in order to retroactively reflect the effects of the acquisition.
Consequently, unless otherwise indicated, the comments in the Report on operations refer to income components net of the effects of the Aggregate Set.
For the sole purpose of permitting a like-for-like comparison with performance in 2018, the figures for the first three quarters of 2017 have also been reconstructed based on management records – since separate records ceased to be kept in the fourth quarter of 2017 following the IT migration in early December 2017 of the former Banca Popolare di Vicenza and Veneto Banca accounts – to reflect retroactively the effects on the income statement of the assets and liabilities of the former Banca Popolare di Vicenza and Veneto Banca (the Aggregate Set). These figures are shown in specific columns of the reclassified income statement and the reclassified income statement on a quarterly basis ("Aggregate" figures).
Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.
In summary, the reclassifications and aggregations of the consolidated income statement are as follows:

- dividends relating to shares or units in portfolio, which have been reallocated to the item Profits (losses) on financial assets and liabilities designated at fair value;
- Profits (losses) on financial assets and liabilities pertaining to insurance companies (measured in accordance with IAS 39, by virtue of the Group's exercise of the option to defer application of IFRS 9), which include the shares of Net interest income, Dividends and the Income from financial assets and liabilities relating to insurance business, has been reclassified, along with net premiums and the balance of income and expenses from insurance business, to the specific item Income from insurance business, to which the effect of the adjustment of the technical reserve has also been attributed, in respect of the component borne by the insured parties, relating to the impairment of the securities held in the portfolios of the Group's insurance companies;
- 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;
- Profits (losses) on trading, fair value adjustments in hedge accounting, Net profit (loss) on other financial assets and liabilities designated at fair value through profit or loss, profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on sale or repurchase of financial liabilities, which have been reallocated to the single item Profits (losses) on financial assets and liabilities designated at fair value;
- the recoveries of expenses, taxes and duties have been subtracted from Other administrative expenses, instead of being included among Other income;
- profits and losses on disposal or repurchase of financial assets measured at amortised cost (loans and debt securities), which have been allocated to Net adjustments to loans;
- Net adjustments for credit risk associated with financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, the effects on the income statement of the changes in contracts and the net provisions for risks and charges for credit risk relating to commitments and guarantees given, attributed to the single item Net adjustments to loans;
- the reversal in the time value of Employee termination indemnities and Provisions for risks and charges, which was included among Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows, in keeping with the treatment of the time value of financial assets measured at amortised cost;
- Net losses for credit risk associated with financial assets measured at amortised cost other than loans and net impairment losses on equity investments, as well as property and equipment and intangible assets (including 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 to Other net provisions and Net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified to Impairment (net of tax) of goodwill and other intangible assets;

- realised profits (losses) on investments measured at amortised cost other than loans, on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans.
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Other 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;
- levies and other charges aimed at maintaining the stability of the banking industry, which have been reclassified, after tax, to the specific caption;
- Goodwill impairment and impairment losses on other intangible assets, which – where present – are shown, as stated above, net of tax, in a specific caption amongst "non-current" income components.

Reclassified income statement

(millions of euro)

	30.06.2018	30.06.2017	Changes vs 30.06.2017		30.06.2017 Aggregate	Changes vs 30.06.2017 Aggregate	
			amount	%		amount	%
Net interest income	3,694	3,621	73	2.0	3,771	-77	-2.0
Net fee and commission income	4,004	3,763	241	6.4	3,920	84	2.1
Income from insurance business	575	523	52	9.9	523	52	9.9
Profits (Losses) on financial assets and liabilities designated at fair value	1,094	594	500	84.2	560	534	95.4
Other operating income (expenses)	49	72	-23	-31.9	103	-54	-52.4
Operating income	**9,416**	**8,573**	**843**	**9.8**	**8,877**	**539**	**6.1**
Personnel expenses	-2,895	-2,633	262	10.0	-2,964	-69	-2.3
Other administrative expenses	-1,311	-1,220	91	7.5	-1,404	-93	-6.6
Adjustments to property, equipment and intangible assets	-404	-374	30	8.0	-403	1	0.2
Operating costs	**-4,610**	**-4,227**	**383**	**9.1**	**-4,771**	**-161**	**-3.4**
Operating margin	**4,806**	**4,346**	**460**	**10.6**	**4,106**	**700**	**17.0**
Net adjustments to loans	-1,177	-1,432	-255	-17.8	-1,434	-257	-17.9
Other net provisions and net impairment losses on other assets	-86	-59	27	45.8	-69	17	24.6
Other income (expenses)	10	3,813	-3,803	-99.7	3,813	-3,803	-99.7
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**3,553**	**6,668**	**-3,115**	**-46.7**	**6,416**	**-2,863**	**-44.6**
Taxes on income	-1,052	-890	162	18.2	-866	186	21.5
Charges (net of tax) for integration and exit incentives	-35	-53	-18	-34.0	-53	-18	-34.0
Effect of purchase price allocation (net of tax)	-70	-11	59		-11	59	
Levies and other charges concerning the banking industry (net of tax)	-200	-460	-260	-56.5	-489	-289	-59.1
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-17	-16	1	6.3	241	-258	
Net income (loss)	**2,179**	**5,238**	**-3,059**	**-58.4**	**5,238**	**-3,059**	**-58.4**

Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Quarterly development of the reclassified income statement

(millions of euro)

	2018		2017			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,839	1,855	1,837	1,807	1,816	1,805
Net fee and commission income	1,991	2,013	2,153	1,951	1,902	1,861
Income from insurance business	281	294	183	227	240	283
Profits (Losses) on financial assets and liabilities designated at fair value	472	622	538	184	366	228
Other operating income (expenses)	21	28	9	11	32	40
Operating income	**4,604**	**4,812**	**4,720**	**4,180**	**4,356**	**4,217**
Personnel expenses	-1,455	-1,440	-1,610	-1,444	-1,343	-1,290
Other administrative expenses	-651	-660	-836	-682	-635	-585
Adjustments to property, equipment and intangible assets	-200	-204	-235	-202	-188	-186
Operating costs	**-2,306**	**-2,304**	**-2,681**	**-2,328**	**-2,166**	**-2,061**
Operating margin	**2,298**	**2,508**	**2,039**	**1,852**	**2,190**	**2,156**
Net adjustments to loans	-694	-483	-1,229	-643	-737	-695
Other net provisions and net impairment losses on other assets	-35	-51	-134	-24	-56	-3
Other income (expenses)	8	2	861	72	3,617	196
Income (Loss) from discontinued operations	-1	1	-	-	-	-
Gross income (loss)	**1,576**	**1,977**	**1,537**	**1,257**	**5,014**	**1,654**
Taxes on income	-508	-544	-249	-343	-445	-445
Charges (net of tax) for integration and exit incentives	-16	-19	-227	-20	-41	-12
Effect of purchase price allocation (net of tax)	-26	-44	364	-26	-5	-6
Levies and other charges concerning the banking industry (net of tax)	-83	-117	3	-192	-178	-282
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Minority interests	-16	-1	-	-26	-8	-8
Net income (loss)	**927**	**1,252**	**1,428**	**650**	**4,337**	**901**

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

Despite the signs of a weakening of the economic cycle and the financial tensions surrounding Italian debt, the Intesa Sanpaolo Group reported net income of 2,179 million euro in the first half of 2018, up by 25.4%, excluding, in the interest of uniformity of comparison, the public contribution of 3,500 million euro to offset the impact on capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca in the first half of 2017. This performance was mainly due to the increase in operating income, the reduction in net adjustments to loans and careful management of operating costs.

Quarterly development of the reclassified income statement – Aggregate figures

(millions of euro)

	2018		2017			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter Aggregate**	**Second quarter Aggregate**	**First quarter Aggregate**
Net interest income	1,839	1,855	1,837	1,828	1,891	1,880
Net fee and commission income	1,991	2,013	2,153	1,984	1,992	1,928
Income from insurance business	281	294	183	227	240	283
Profits (Losses) on financial assets and liabilities designated at fair value	472	622	538	185	349	211
Other operating income (expenses)	21	28	9	19	47	56
Operating income	**4,604**	**4,812**	**4,720**	**4,243**	**4,519**	**4,358**
Personnel expenses	-1,455	-1,440	-1,610	-1,471	-1,506	-1,458
Other administrative expenses	-651	-660	-836	-694	-729	-675
Adjustments to property, equipment and intangible assets	-200	-204	-235	-206	-202	-201
Operating costs	**-2,306**	**-2,304**	**-2,681**	**-2,371**	**-2,437**	**-2,334**
Operating margin	**2,298**	**2,508**	**2,039**	**1,872**	**2,082**	**2,024**
Net adjustments to loans	-694	-483	-1,229	-648	-738	-696
Other net provisions and net impairment losses on other assets	-35	-51	-134	-31	-61	-8
Other income (expenses)	8	2	861	72	3,617	196
Income (Loss) from discontinued operations	-1	1	-	-	-	-
Gross income (loss)	**1,576**	**1,977**	1,537	1,265	4,900	1,516
Taxes on income	-508	-544	-249	-366	-434	-432
Charges (net of tax) for integration and exit incentives	-16	-19	-227	-20	-41	-12
Effect of purchase price allocation (net of tax)	-26	-44	364	-26	-5	-6
Levies and other charges concerning the banking industry (net of tax)	-83	-117	3	-192	-193	-296
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Minority interests	-16	-1	-	-11	110	131
Net income (loss)	**927**	**1,252**	**1,428**	**650**	**4,337**	**901**

Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Operating income

Operating income amounted to 9,416 million euro, up by 6.1% on the Aggregate figure for the first half of 2017, mainly due to profits (losses) on financial assets and liabilities designated at fair value, which nearly doubled. The increases in net fee and commission income (+2.1%) and income from insurance business (+9.9%) contributed to a lesser extent. Other operating income declined by 54 million euro compared with the Aggregate figure for the first six months of 2017.

Net interest income

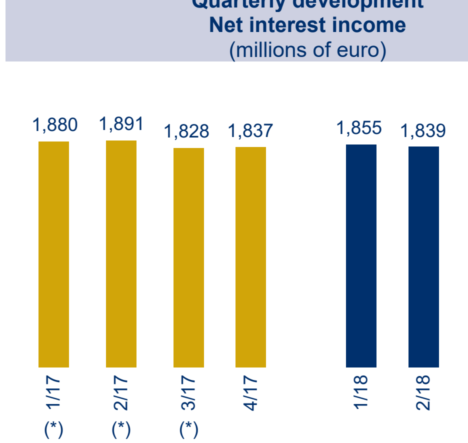
(millions of euro)

	30.06.2018	30.06.2017	Changes	
			amount	%
Relations with customers	3,787	3,629	158	4.4
Securities issued	-1,241	-1,341	-100	-7.5
Customer dealing (*)	**2,546**	**2,288**	**258**	**11.3**
Instruments measured at amortised cost which do not constitute loans	127	21	106	
Other financial assets and liabilities designated at fair value through profit or loss	51	49	2	4.1
Other financial assets designated at fair value through other comprehensive income	305	323	-18	-5.6
Financial assets and liabilities	**483**	**393**	**90**	**22.9**
Relations with banks (*)	**89**	**84**	**5**	**6.0**
Differentials on hedging derivatives	**-83**	**67**	**-150**	
Non-performing assets	**616**	**741**	**-125**	**-16.9**
Other net interest income	**43**	**48**	**-5**	**-10.4**
Net interest income	**3,694**	**3,621**	**73**	**2.0**

(*) Including the interest on instruments and loans designated at fair value through profit or loss and designated at fair value through other comprehensive income

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

Quarterly development
Net interest income
(millions of euro)



(*) Aggregate figures

Net interest income of 3,694 million euro declined by 2% on the Aggregate figure and increased by 2% on the same period of 2017, as shown in the table above. Against the backdrop of very low spreads from an historical standpoint, performance was conditioned by the decline in interest on non-performing assets due to pro-active management of NPLs, which resulted in a decline in volumes, and by the more limited contribution of hedging of core deposits following the actions taken in light of the changed expectations regarding the interest rate curve.
The contribution of intermediated volumes, and particularly loans, had a positive effect on income from customer dealing, which amounted to 2,546 million euro.
Interest on financial assets climbed to 483 million euro.
Net interest income on the interbank market came to 89 million euro, benefiting from the lower interest expense on interbank funding.

(millions of euro)

	2018		Changes	
	Second quarter	First quarter	amount	%
Relations with customers	1,895	1,892	3	0.2
Securities issued	-622	-619	3	0.5
Customer dealing (*)	**1,273**	**1,273**	-	-
Instruments measured at amortised cost which do not constitute loans	68	59	9	15.3
Other financial assets and liabilities designated at fair value through profit or loss	32	19	13	68.4
Other financial assets designated at fair value through other comprehensive income	158	147	11	7.5
Financial assets and liabilities	**258**	**225**	**33**	**14.7**
Relations with banks (*)	**49**	**40**	9	22.5
Differentials on hedging derivatives	**-56**	**-27**	29	
Non-performing assets	**298**	**318**	-20	-6.3
Other net interest income	**17**	**26**	-9	-34.6
Net interest income	**1,839**	**1,855**	**-16**	**-0.9**

(*) Including the interest on instruments and loans designated at fair value through profit or loss and designated at fair value through other comprehensive income

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

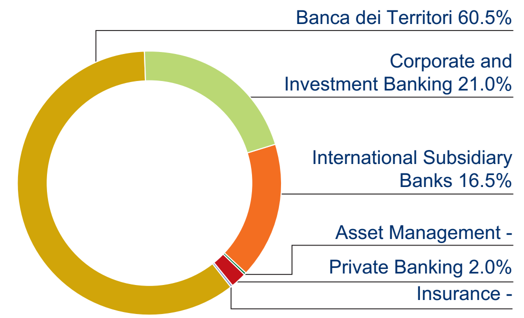
On the basis of the Aggregate figures, net interest income for the second quarter of 2018 was in line with the last quarter of 2017 and lower than in the first quarter of 2018, due to the cessation, following the signing of the agreement and the reclassification to discontinued operations, of the accounting effect of the reversal in time value on bad loans subject to sale to Intrum, to be finalised in the second half of the year.

(millions of euro)

	30.06.2018	30.06.2017	30.06.2017	changes vs 30.06.2017 Aggregate	
			Aggregate	amount	%
Banca dei Territori	2,352	2,168	2,328	24	1.0
Corporate and Investment Banking	816	819	830	-14	-1.7
International Subsidiary Banks	642	650	650	-8	-1.2
Private Banking	78	90	90	-12	-13.3
Asset Management	-	-	-	-	-
Insurance	-	-	-	-	-
Total business areas	**3,888**	**3,727**	**3,898**	**-10**	**-0.3**
Corporate Centre	-194	-106	-127	67	52.8
Intesa Sanpaolo Group	**3,694**	**3,621**	**3,771**	**-77**	**-2.0**

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Business areas



The Banca dei Territori Division, which accounts for over 60% of business area results, recorded an increase in net interest income (+1% or +24 million euro), benefiting from the increase in customer dealing volumes. The net interest income of the Corporate and Investment Banking Division is down (-1.7%, or -14 million euro), primarily due to the lesser contribution from customer dealing. Net interest income also decreased for both the International Subsidiary Banks (-1.2% or -8 million euro) and the Private Banking Division, which in relative terms have a lesser impact on the consolidated accounts.
The increase in the Corporate Centre's net interest expense was attributable to the Treasury Department, with regard to the securities and money-market portfolio.

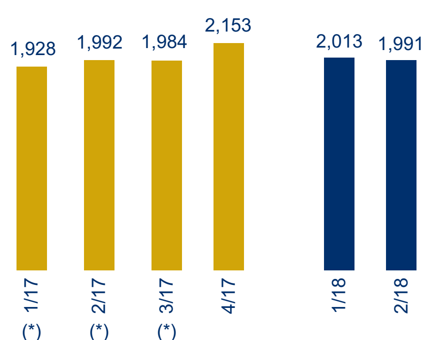
Net fee and commission income

(millions of euro)

	30.06.2018			30.06.2017			Changes	
	Income	Expense	Net	Income	Expense	Net	amount	%
Guarantees given / received	187	-56	131	191	-24	167	-36	-21.6
Collection and payment services	320	-111	209	292	-100	192	17	8.9
Current accounts	632	-	632	505	-	505	127	25.1
Credit and debit cards	476	-275	201	410	-235	175	26	14.9
Commercial banking activities	**1,615**	**-442**	**1,173**	**1,398**	**-359**	**1,039**	**134**	**12.9**
Dealing and placement of securities	514	-115	399	467	-109	358	41	11.5
Currency dealing	26	-1	25	22	-1	21	4	19.0
Portfolio management	1,519	-354	1,165	1,428	-319	1,109	56	5.0
Distribution of insurance products	756	-	756	739	-	739	17	2.3
Other	105	-21	84	102	-21	81	3	3.7
Management, dealing and consultancy activities	**2,920**	**-491**	**2,429**	**2,758**	**-450**	**2,308**	**121**	**5.2**
Other fee and commission	**523**	**-121**	**402**	**509**	**-93**	**416**	**-14**	**-3.4**
Total	**5,058**	**-1,054**	**4,004**	**4,665**	**-902**	**3,763**	**241**	**6.4**

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

Quarterly development
Net fee and commission income
(millions of euro)



(*) Aggregate figures

In the first six months of 2018, net fee and commission income, which accounts for 43% of operating revenues, amounted to 4,004 million euro, with an increase of 2.1% on the Aggregate figure and of 6.4% on the first half of 2017 (as shown in the table above), characterised by the moderately positive performance of commercial banking business, above all current accounts and, to a lesser extent, management and dealing activity.

(millions of euro)

	2018 Second quarter	2018 First quarter	Changes amount	Changes %
Guarantees given / received	72	59	13	22.0
Collection and payment services	117	92	25	27.2
Current accounts	313	319	-6	-1.9
Credit and debit cards	109	92	17	18.5
Commercial banking activities	**611**	**562**	**49**	**8.7**
Dealing and placement of securities	191	208	-17	-8.2
Currency dealing	13	12	1	8.3
Portfolio management	569	596	-27	-4.5
Distribution of insurance products	378	378	-	-
Other	38	46	-8	-17.4
Management, dealing and consultancy activities	**1,189**	**1,240**	**-51**	**-4.1**
Other net fee and commission income	**191**	**211**	**-20**	**-9.5**
Net fee and commission income	**1,991**	**2,013**	**-22**	**-1.1**

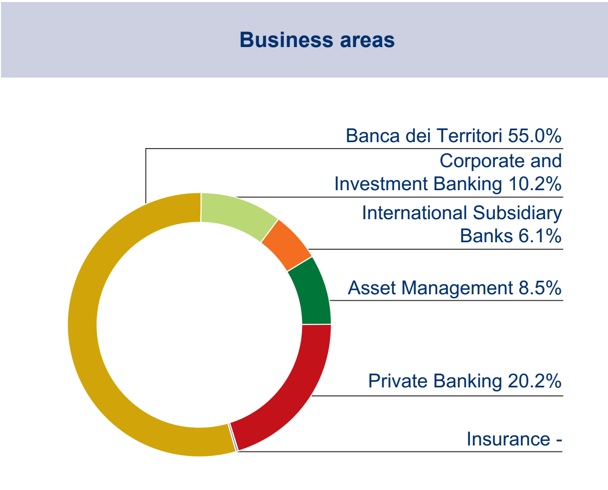
Figures restated, where necessary and material, considering the changes in the scope of consolidation.

At a quarterly level, and on a like-for-like basis, fee and commission income was slightly lower than in the previous quarter due to the decreased fees and commissions earned by the Parent Company and the other Italian commercial banks, above all on management and dealing activity, which in the second quarter was impacted by unfavourable market performance.

(millions of euro)

	30.06.2018	30.06.2017	30.06.2017 Aggregate	changes vs 30.06.2017 Aggregate amount	changes vs 30.06.2017 Aggregate %
Banca dei Territori	2,331	2,064	2,244	87	3.9
Corporate and Investment Banking	436	475	475	-39	-8.2
International Subsidiary Banks	258	239	241	17	7.1
Private Banking	856	831	839	17	2.0
Asset Management	360	322	322	38	11.8
Insurance	-	-	-	-	-
Total business areas	**4,241**	**3,931**	**4,121**	**120**	**2.9**
Corporate Centre	-237	-168	-201	36	17.9
Intesa Sanpaolo Group	**4,004**	**3,763**	**3,920**	**84**	**2.1**

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.



At the level of business segments, the Banca dei Territori Division, which accounts for more than one-half of the result of the business units, recorded an increase in fee and commission income (+3.9% or +87 million euro), mostly attributable to the asset management segment – which benefited from greater placement and volume growth –, bancassurance products, and the placement of third party-bonds; the fee and commission income generated by commercial banking business also had a positive effect, particularly those earned on current accounts and on loans and guarantees. Private Banking reported an increase of 2% or +17 million euro, to be viewed in connection with the greater average volumes of assets under management that generate recurring fees and commissions and with the positive contribution provided by advanced consulting services; Asset Management registered a favourable performance (+11.8% or +38 million euro), driven in particular by management fees, correlated with the increase in average assets under management, and by placement fees; the International Subsidiary Banks posted an improvement of 7.1% (+17 million euro), attributable to the banks operating in Croatia, Slovakia and Serbia; finally, Corporate and Investment Banking was down by 8.2% (-39 million euro), due to the lower fees and commissions associated with the commercial banking (loans and guarantees) and investment banking areas (structured finance and primary markets).

Income from insurance business

(millions of euro)

Captions (a)	30.06.2018			30.06.2017			Changes	
	Life	Non-life	Total	Life	Non-life	Total	amount	%
Technical margin	**85**	**58**	**143**	**27**	**42**	**69**	**74**	
Net insurance premiums (b)	3,211	195	3,406	3,079	175	3,254	152	4.7
Net charges for insurance claims and surrenders (c)	-4,774	-50	-4,824	-4,664	-47	-4,711	113	2.4
Net charges for changes in technical reserves (d)	1,079	-	1,079	1,039	-	1,039	40	3.8
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	658	-	658	689	-	689	-31	-4.5
Net fees on investment contracts (f)	161	-	161	129	1	130	31	23.8
Commission expenses on insurance contracts (g)	-246	-59	-305	-246	-58	-304	1	0.3
Other technical income and expense (h)	-4	-28	-32	1	-29	-28	4	14.3
Net investment result	**472**	**11**	**483**	**524**	**6**	**530**	**-47**	**-8.9**
Operating income from investments	283	11	294	2,114	6	2,120	-1,826	-86.1
Net interest income	*896*	*1*	*897*	*997*	*3*	*1,000*	*-103*	*-10.3*
Dividends	*134*	*2*	*136*	*123*	*1*	*124*	*12*	*9.7*
Gains/losses on disposal	*598*	*8*	*606*	*878*	*2*	*880*	*-274*	*-31.1*
Valuation gains/losses	*-1,309*	*-*	*-1,309*	*154*	*-*	*154*	*-1,463*	
Portfolio management fees paid (i)	*-36*	*-*	*-36*	*-38*	*-*	*-38*	*-2*	*-5.3*
Gains (losses) on investments pertaining to insured parties	189	-	189	-1,590	-	-1,590	1,779	
Insurance products (j)	*-596*	*-*	*-596*	*-724*	*-*	*-724*	*-128*	*-17.7*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-63*	*-*	*-63*	*35*	*-*	*35*	*-98*	
Investment products (l)	*848*	*-*	*848*	*-901*	*-*	*-901*	*1,749*	
Income from insurance business gross of consolidation effects	**557**	**69**	**626**	**551**	**48**	**599**	**27**	**4.5**
Consolidation effects	-51	-	-51	-76	-	-76	-25	-32.9
Income from insurance business	**506**	**69**	**575**	**475**	**48**	**523**	**52**	**9.9**

Figures restated, where necessary and material, 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.

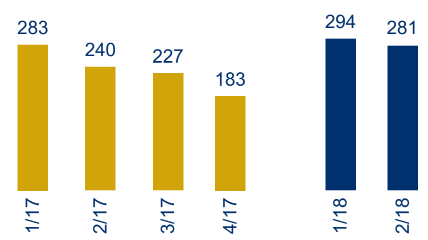
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

(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.

Quarterly development
Income from insurance business
(millions of euro)



During the first half of 2018, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, recorded growth in net revenues, standing at 575 million euro, compared to the 523 million euro recorded in the same period of 2017. This performance was primarily due to the technical margins on life insurance products and the profitability of the protection business. By contrast, the financial performance of the life insurance business was shaped by valuation losses on portfolios, which drove down margins.

(millions of euro)

	2018		Changes	
Captions (a)	**Second quarter**	**First quarter**	**amount**	**%**
Technical margin	**66**	**77**	-11	-14.3
Net insurance premiums (b)	1,607	1,799	-192	-10.7
Net charges for insurance claims and surrenders (c)	-2,188	-2,636	-448	-17.0
Net charges for changes in technical reserves (d)	354	725	-371	-51.2
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	387	271	116	42.8
Net fees on investment contracts (f)	66	95	-29	-30.5
Commission expenses on insurance contracts (g)	-143	-162	-19	-11.7
Other technical income and expense (h)	-17	-15	2	13.3
Net investment result	**233**	**250**	-17	-6.8
Operating income from investments	754	-460	1,214	
Net interest income	*457*	*440*	17	3.9
Dividends	*86*	*50*	36	72.0
Gains/losses on disposal	*214*	*392*	-178	-45.4
Valuation gains/losses	*14*	*-1,323*	1,337	
Portfolio management fees paid (i)	*-17*	*-19*	-2	-10.5
Gains (losses) on investments pertaining to insured parties	-521	710	-1,231	
Insurance products (j)	*-320*	*-276*	44	15.9
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-68*	*5*	-73	
Investment products (l)	*-133*	*981*	-1,114	
Income from insurance business gross of consolidation effects	**299**	**327**	**-28**	**-8.6**
Consolidation effects	-18	-33	-15	-45.5
Income from insurance business	**281**	**294**	**-13**	**-4.4**

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

For notes, see the previous table

At the quarterly level, income from insurance business, inclusive of both the life and non-life businesses, was lower in the second quarter of 2018 than in the previous quarter, due to both the financial and technical components, while still exceeding the average quarterly level for the previous year.

(millions of euro)

Business	30.06.2018				30.06.2017
	Periodic premiums	Single premiums	Total	*of which new business*	
Life insurance business	**77**	**3,135**	**3,212**	**3,135**	**3,080**
Premiums issued on traditional products	69	2,835	2,904	*2,835*	2,799
Premiums issued on unit-linked products	3	2	5	*2*	8
Premiums issued on capitalisation products	-	-	-	-	-
Premiums issued on pension funds	5	298	303	*298*	273
Non-life insurance business	**61**	**139**	**200**	54	**180**
Premiums issued	66	182	248	*161*	233
Change in premium reserves	-5	-43	-48	*-107*	-53
Premiums ceded to reinsurers	**-3**	**-3**	**-6**	-4	**-6**
Net premiums from insurance products	**135**	**3,271**	**3,406**	***3,185***	**3,254**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	39	7,082	7,121	*7,086*	8,409
Total business from investment contracts	**39**	**7,082**	**7,121**	***7,086***	**8,409**
Total business	**174**	**10,353**	**10,527**	***10,271***	**11,663**

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

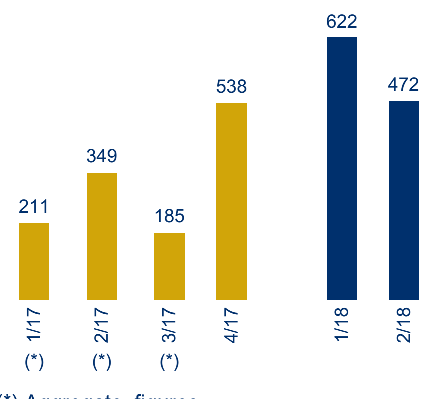
In the first half of 2018, business in the insurance segment reached 10.5 billion euro, down from 11.7 billion euro in the same period of 2017. Unit-linked investment contracts with lower capital absorption remain the main product, although traditional life insurance policies based on the distribution of multi-line products are recovering and open-ended pension funds and individual pension plans are growing.
New business was nearly 10.3 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

Profits (Losses) on financial assets and liabilities designated at fair value

(millions of euro)

	30.06.2018	30.06.2017	changes	
			amount	%
Interest rates	208	214	-6	-2.8
Equity instruments	381	107	274	
Currencies	10	-73	83	
Structured credit products	5	20	-15	-75.0
Credit derivatives	44	22	22	
Commodity derivatives	7	5	2	40.0
Income from operations on assets designated at fair value through profit or loss	**655**	**295**	**360**	
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	439	299	140	46.8
Profits (Losses) on financial assets and liabilities designated at fair value	**1,094**	**594**	**500**	**84.2**

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



(*) Aggregate figures

Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,094 million euro in the first six months of 2018, up sharply on the homogeneous Aggregate figure and on the figure for the first half of 2017. Figures doubled on a like-for-like basis, due in part to the positive effect of 264 million euro deriving from the measurement of the investment in NTV at fair value in the first quarter, in view of its subsequent sale. Net of this non-recurring component, the increase was still significant: 270 million euro, mostly attributable to the greater profits reported by Banca IMI.

(millions of euro)

	2018		Changes	
	Second quarter	First quarter	amount	%
Interest rates	147	61	86	
Equity instruments	97	284	-187	-65.8
Currencies	-16	26	-42	
Structured credit products	3	2	1	50.0
Credit derivatives	23	21	2	9.5
Commodity derivatives	3	4	-1	-25.0
Income from operations on assets designated at fair value through profit or loss	**257**	**398**	**-141**	**-35.4**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	215	224	-9	-4.0
Income (Losses) on financial assets and liabilities designated at fair value	**472**	**622**	**-150**	**-24.1**

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

The value for the second quarter was lower than in the first quarter, when it included the effects of the aforementioned NTV deal.

Other operating income (expenses)

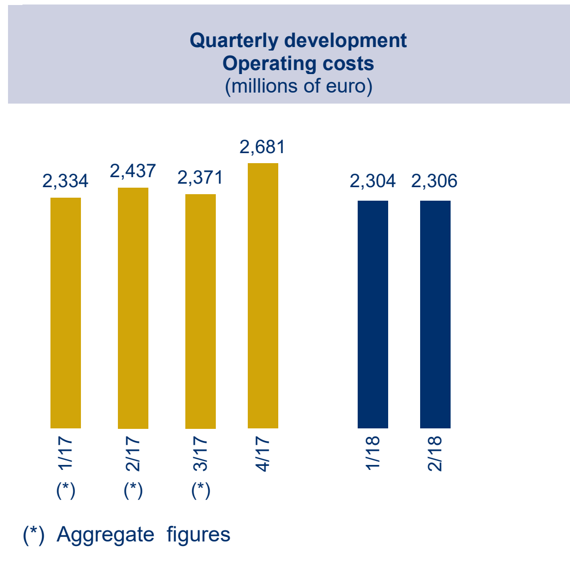
Other operating income (expenses) amounted to 49 million euro, compared with an Aggregate figure of 103 million euro and with 72 million euro in the first six months of 2017. This item includes the income and expenses from continuing operations - except for recoveries of expenses, taxes and duties, which are deducted from the sub-captions of administrative expenses - as well as profits on investments carried at equity. The decline in the item on the first half of 2017 was due to this latter component.

Operating costs

(millions of euro)

	30.06.2018	30.06.2017	Changes	
			amount	%
Wages and salaries	2,028	1,805	223	12.4
Social security charges	518	468	50	10.7
Other	349	360	-11	-3.1
Personnel expenses	**2,895**	**2,633**	**262**	**10.0**
Information technology expenses	333	307	26	8.5
Management of real estate assets expenses	295	261	34	13.0
General structure costs	191	189	2	1.1
Professional and legal expenses	155	182	-27	-14.8
Advertising and promotional expenses	53	45	8	17.8
Indirect personnel costs	33	50	-17	-34.0
Other costs	202	160	42	26.3
Indirect taxes and duties	463	454	9	2.0
Recovery of expenses and charges	-414	-428	-14	-3.3
Administrative expenses	**1,311**	**1,220**	**91**	**7.5**
Property and equipment	159	160	-1	-0.6
Intangible assets	245	214	31	14.5
Adjustments	**404**	**374**	**30**	**8.0**
Operating costs	**4,610**	**4,227**	**383**	**9.1**

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



Close attention continued to be devoted to managing operating costs, which amounted to 4,610 million euro for the half-year, down by 3.4% on the Aggregate figure and up by 9.1% on the first six months of 2017, as shown in the table above.

Personnel expenses amounted to 2,895 million euro, down by 2.3% on a like-for-like basis; the savings resulting from the redundancies negotiated in the agreements entered into with trade unions in 2017 were more than enough to compensate for the inertial increase in remuneration and greater incentives for growth. In average terms, the workforce was down by 3% over twelve months.

Administrative expenses continued their favourable trend which has distinguished the Intesa Sanpaolo Group since its establishment, and stood at 1,311 million euro, down by 6.6% on a like-for-like basis as a result of the savings achieved on the main items of expenses.

Amortisation and depreciation came to 404 million euro, comparable to the figure reported on a like-for-like basis in the first half of 2017.

The cost/income ratio for the period was 49%, a significant improvement on the 53.7% recorded in the same period of the previous year on a like-for-like basis, due to the performance of revenues and the considerable decrease in costs.

(millions of euro)

	2018		Changes	
	Second quarter	First quarter	amount	%
Wages and salaries	1,031	997	34	3.4
Social security charges	262	256	6	2.3
Other	162	187	-25	-13.4
Personnel expenses	**1,455**	**1,440**	**15**	**1.0**
Information technology expenses	164	169	-5	-3.0
Management of real estate assets expenses	143	152	-9	-5.9
General structure costs	91	100	-9	-9.0
Professional and legal expenses	85	70	15	21.4
Advertising and promotional expenses	33	20	13	65.0
Indirect personnel costs	8	25	-17	-68.0
Other costs	94	108	-14	-13.0
Indirect taxes and duties	235	228	7	3.1
Recovery of expenses and charges	-202	-212	-10	-4.7
Administrative expenses	**651**	**660**	**-9**	**-1.4**
Property and equipment	79	80	-1	-1.3
Intangible assets	121	124	-3	-2.4
Adjustments	**200**	**204**	**-4**	**-2.0**
Operating costs	**2,306**	**2,304**	**2**	**0.1**

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

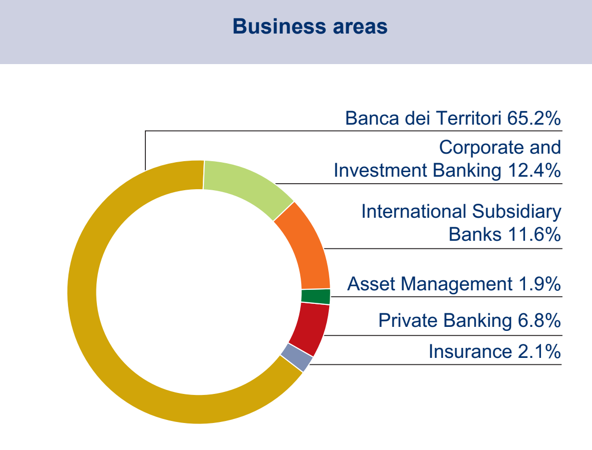
At the quarterly level, the aggregate figures for the second quarter of 2018 were essentially in line with the first quarter of 2018, which represented a low point.

(millions of euro)

	30.06.2018	30.06.2017	30.06.2017	Changes vs 30.06.2017 Aggregate	
			Aggregate	amount	%
Banca dei Territori	2,676	2,396	2,831	-155	-5.5
Corporate and Investment Banking	510	496	497	13	2.6
International Subsidiary Banks	477	448	460	17	3.7
Private Banking	280	283	286	-6	-2.1
Asset Management	77	72	72	5	6.9
Insurance	85	85	85	-	-
Total business areas	**4,105**	**3,780**	**4,231**	**-126**	**-3.0**
Corporate Centre	505	447	540	-35	-6.5
Intesa Sanpaolo Group	**4,610**	**4,227**	**4,771**	**-161**	**-3.4**

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Business areas



At the level of operating costs, the Banca dei Territori Division, which accounts for over 65% of all costs for the business areas, reported savings compared to the first six months of the previous year (-5.5%, or -155 million euro) thanks to lower personnel and other administrative expenses. The Private Banking Division's operating costs declined (-2.1% or -6 million euro), particularly in terms of administrative expenses for services rendered by third parties, depreciation and amortisation. By contrast, there were increases in operating costs at the level of Corporate and Investment Banking (+2.6% or +13 million euro) and Asset Management (+6.9% or +5 million euro) due to the upgrade of their operating structures, the increase in business volumes and research costs associated with the introduction of MiFID II regulations, and at the level of the International Subsidiary Banks (+3.7% or +17 million euro) due to the performance of personnel expenses and, to a lesser extent, administrative expenses, depreciation and amortisation.

Operating margin

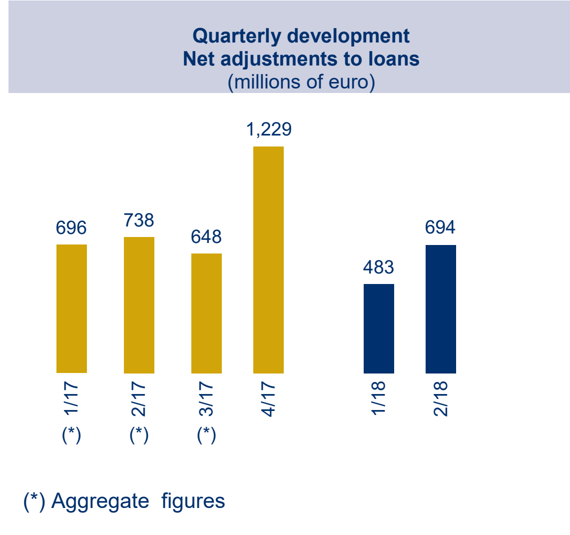
The operating margin was 4,806 million euro in the first half of 2018, up by 17% compared with the Aggregate figure, driven by higher revenues and the containment of operating costs.
Compared with the figure for the first six months of 2017, operating margin was up by 10.6%.

Net adjustments to loans

(millions of euro)

	30.06.2018	30.06.2017	Changes	
			amount	%
Bad loans	-605	-825	-220	-26.7
Unlikely to pay	-682	-458	224	48.9
Past due loans	-202	-127	75	59.1
Stage 3 loans	**-1,489**	**-1,410**	**79**	**5.6**
of which debt securities	-	-	-	-
Stage 2 loans	97	-	97	-
of which debt securities	*7*	-	*7*	-
Stage 1 loans	151	8	143	
of which debt securities	*14*	-	*14*	-
Net losses/recoveries on impairment of loans	**-1,241**	**-1,402**	**-161**	**-11.5**
Profits/losses from changes in contracts without derecognition	**-5**	**-**	**5**	**-**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**69**	**-30**	**99**	
Net adjustments to loans	**-1,177**	**-1,432**	**-255**	**-17.8**

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



In the first half of the current year, net adjustments to loans amounted to 1,177 million euro, down from 1,434 million euro in the first half of 2017 at the Aggregate level, due to the reduction in adjustments to bad loans, only partly offset by the increase in adjustments to unlikely-to-pay positions and past-due loans. Given a decline in non-performing assets as a percentage of total loans, the cost of credit, expressed as the ratio of annualised net adjustments to net loans, decreased to 59 bps from 81 bps in the previous financial year and 71 bps in the first half of 2017.
In detail, bad loans required total net adjustments of 605 million euro, compared to 825 million euro in the first six months of 2017, with a coverage ratio of 67.1%. Net impairment losses on unlikely to pay loans, totalling 682 million euro, were up compared to the same period of 2017, with a coverage ratio of 35.2%. Net impairment losses on past due loans amounted to 202 million euro, with a coverage ratio of 22.9%. The coverage ratio for forborne positions within the non-performing loans category was 39.4% at the end of June 2018. Finally, the stage 1 and stage 2 components of performing loans presented recoveries of approximately 250 million euro, resulting in a coverage ratio of 0.6%.

(millions of euro)

	2018		Changes	
	Second quarter	First quarter	amount	%
Bad loans	-422	-183	239	
Unlikely to pay	-438	-244	194	79.5
Past due loans	-120	-82	38	46.3
Stage 3 loans	**-980**	**-509**	**471**	**92.5**
of which debt securities	-	-	-	-
Stage 2 loans	136	-39	175	
of which debt securities	6	1	5	
Stage 1 loans	121	30	91	
of which debt securities	5	9	-4	-44.4
Net losses/recoveries on impairment of loans	**-723**	**-518**	**205**	**39.6**
Profits/losses from changes in contracts without derecognition	**-4**	**-1**	**3**	
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**33**	**36**	**-3**	**-8.3**
Net adjustments to loans	**-694**	**-483**	**211**	**43.7**

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

The second quarter of 2018 showed higher adjustments to loans than in the first quarter of the year, but lower than in the second quarter of the previous year.

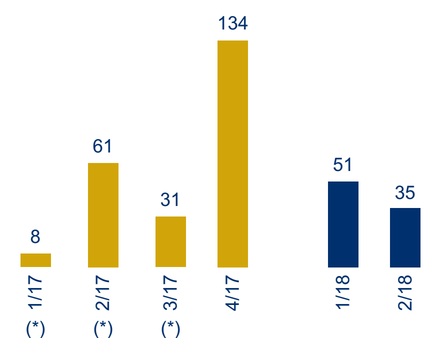
Other net provisions and net impairment losses on other assets

(millions of euro)

	30.06.2018	30.06.2017	Changes amount	Changes %
Other net provisions	-72	-37	35	94.6
Net impairment losses on instruments designated at fair value through other comprehensive income	-3	-	3	-
Net impairment losses on other assets	-9	-22	-13	-59.1
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-2	-	2	-
Other net provisions and net impairment losses on other assets	**-86**	**-59**	**27**	**45.8**

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

Quarterly development Other net provisions and net impairment losses on other assets
(millions of euro)



(*) Aggregate figures

Within the layout of the reclassified income statement, this caption primarily consists of other net provisions for risks and charges and net impairment losses on other assets and on securities designated at fair value. In the first six months of the current year, other net provisions and net impairment losses on other assets amounted to 86 million euro, compared with the Aggregate figure of 69 million euro and the 59 million euro recognised in the first half of 2017. The increase should be viewed in conjunction with the greater net provisions for risks and charges and, to a marginal extent, net adjustments to securities designated at fair value.

(millions of euro)

	2018 Second quarter	2018 First quarter	Changes amount	Changes %
Other net provisions	-35	-37	-2	-5.4
Net impairment losses on instruments designated at fair value through other comprehensive income	10	-13	23	
Net impairment losses on other assets	-8	-1	7	
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	**-2**	**-**	**2**	**-**
Other net provisions and net impairment losses on other assets	**-35**	**-51**	**-16**	**-31.4**

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

Other income (expenses)

In this caption of the reclassified income statement, the “profits (losses) on financial assets measured at amortised cost other than loans, equity investments and other investments” are aggregated together with other income and expenses not strictly linked to operations.

In the first half of 2018 they amounted to 10 million euro, compared with the 313 million euro recorded in the first six months of 2017, in the latter case net of the public grant of 3,500 million euro received to offset the impacts on capital ratios of the former Venetian banks operation. This period had seen the recognition of the capital gains on the fair value measurement due to the reclassification of the investment in Bank of Qingdao (190 million euro), no longer included amongst companies subject to significant influence, in addition to those generated by the sale of a share of NTV and the fair value measurement resulting from the reclassification of the remaining equity investment of 109 million euro.

Gross income (loss)

Income before tax from continuing operations came to 3,553 million euro, up by 21.8% compared with the Aggregate figure and +12.2% compared with the first six months of 2017.

Taxes on income

Current and deferred taxes came to 1,052 million euro for an effective tax rate of 29.6%, comparable to the level of the first half of 2017, net of the aforementioned public contribution.

Charges (net of tax) for integration and exit incentives

This caption amounted to 35 million euro, compared with 53 million euro reported in the same period of 2017.

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 of investments and/or aggregate assets. In the first half of 2018, such expenses amounted to 70 million euro, up from the 11 million euro recognised in the same period of 2017 as a consequence of the effects deriving from the measurement at fair value of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca acquired in 2017.

Levies and other charges concerning the banking industry (net of tax)

The caption includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In the first six months of 2018 such levies, net of taxes, fell to 200 million euro, compared with 460 million euro in the same period of 2017, which primarily included the impairment losses on the investment in the Atlante Fund (over 300 million euro) and the ordinary contributions to the European Resolution Fund (114 million euro). The charges for the current half-year referred to the cost of ordinary contributions to resolution funds for all 2018 and to guarantee funds (148 million euro, net of taxes, corresponding to 211 million euro before taxes), along with additional contributions (53 million euro, net of taxes, corresponding to 79 million euro before taxes) requested in the second quarter by the National Resolution Fund in respect of the management of the non-performing assets of the four “good banks” within the framework of the resolution of the crises of Banca delle Marche, Banca Popolare dell’Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara.

Minority interests

In the first half of 2018, net income attributable to minority interests amounted to 17 million euro, compared with an Aggregate figure of net losses attributable to minority interests of 241 million in the first half of 2017, broken down into 16 million euro of net income attributable to minority interests and the net negative 257 million euro primarily attributable to net losses of the Aggregate Set acquired.

Net income (loss)

As a result of the above trends, the Group ended the first half of 2018 with net income of 2,179 million euro, up considerably (+25.4%) on an annual basis (excluding the aforementioned public contribution). This growth increases to 47.1% including the net losses of 257 million euro of the Aggregate Set acquired, presented in the Aggregate income statement under net income/losses attributable to minority interests.

Balance sheet aggregates

General aspects

A condensed balance sheet is prepared to permit a more immediate understanding of the Group's assets and liabilities.
The format adopted includes not only the figures for the reporting period, but also the comparative figures as at 1 January 2018 aimed at providing an account of the effects of the first-time adoption of IFRS 9 and thus at permitting a consistent comparison.
Where necessary, comparative figures are restated to account for discontinued operations and changes in the scope of consolidation, if material.
Certain aggregations and reclassifications have been made 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.
Breakdowns of restatements, aggregations and reclassifications 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 and reclassifications of captions refer to:

- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the separate presentation of financial assets constituting Due from banks and Loans to customers, regardless of the accounting portfolios to which they have been allocated;
- the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
- the separate presentation of financial assets and liabilities pertaining to the insurance business, measured in accordance with IAS 39, in application of the deferral approach, by the Group's insurance companies;
- the inclusion of Hedging derivatives and Fair value changes of financial assets/liabilities in hedged portfolios under 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 separate presentation of Due to banks at amortised cost;
- the aggregation of Due to customers at amortised cost and Securities issued into one caption;
- the aggregation into one caption (Allowances for risks and charges) of allowances for specific purposes (Employee termination indemnities, Allowances for risks and charges, Allowances for commitments and financial guarantees given);
- the presentation of Reserves as an aggregate and net of any treasury shares.

Reclassified balance sheet

(millions of euro)

Assets	30.06.2018	01.01.2018	Changes	
			amount	%
Due from banks	69,797	71,685	-1,888	-2.6
Loans to customers	399,859	399,539	*320*	*0.1*
Loans to customers measured at amortised cost	*399,238*	*399,152*	*86*	*-*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*621*	*387*	*234*	*60.5*
Financial assets measured at amortised cost which do not constitute loans	12,181	11,557	624	5.4
Financial assets at fair value through profit or loss	42,158	42,166	-8	-
Financial assets at fair value through other comprehensive income	61,811	59,960	1,851	3.1
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,229	152,582	-353	-0.2
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	682	423	259	61.2
Investments in associates and companies subject to joint control	647	678	-31	-4.6
Property, equipment and intangible assets	14,406	14,449	-43	-0.3
Tax assets	16,934	18,019	-1,085	-6.0
Non-current assets held for sale and discontinued operations	3,609	627	2,982	
Other assets	19,405	22,843	-3,438	-15.1
Total Assets	**793,718**	**794,528**	**-810**	**-0.1**

(millions of euro)

Liabilities	30.06.2018	01.01.2018	Changes	
			amount	%
Due to banks at amortised cost	97,675	99,992	-2,317	-2.3
Due to customers at amortised cost and securities issued	424,785	416,635	8,150	2.0
Financial liabilities held for trading	39,482	41,459	-1,977	-4.8
Financial liabilities designated at fair value	4	3	1	33.3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,413	1,312	101	7.7
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	70,337	68,233	2,104	3.1
Tax liabilities	2,121	2,515	-394	-15.7
Liabilities associated with non-current assets held for sale and discontinued operations	261	264	-3	-1.1
Other liabilities	19,695	19,958	-263	-1.3
Technical reserves	79,842	82,926	-3,084	-3.7
Allowances for risks and charges	6,876	7,427	-551	-7.4
of which allowances for commitments and financial guarantees given	*473*	*535*	*-62*	*-11.6*
Share capital	8,732	8,732	-	-
Reserves	37,212	33,578	3,634	10.8
Valuation reserves	-1,366	-878	488	55.6
Valuation reserves pertaining to insurance companies	3	417	-414	-99.3
Equity instruments	4,103	4,103	-	-
Minority interests	364	536	-172	-32.1
Net income (loss)	2,179	7,316	-5,137	-70.2
Total liabilities and shareholders' equity	**793,718**	**794,528**	**-810**	**-0.1**

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

Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	2018			2017			
	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due from banks	69,797	70,541	71,685	72,166	79,724	75,702	61,964
Loans to customers	399,859	401,115	399,539	411,978	399,999	405,235	402,817
Loans to customers measured at amortised cost	*399,238*	*400,501*	*399,152*	*411,978*	*399,999*	*405,235*	*402,817*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*621*	*614*	*387*	*-*	*-*	*-*	*-*
Financial assets measured at amortised cost which do not constitute loans	12,181	11,688	11,557	-	-	-	-
Financial assets measured at fair value through profit or loss	42,158	42,115	42,166	39,590	42,541	44,996	47,176
Financial assets measured at fair value through other comprehensive income	61,811	60,531	59,960	65,068	68,569	67,716	76,870
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,229	153,550	152,582	152,582	150,391	147,621	145,744
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	682	476	423	423	433	305	887
Investments in associates and companies subject to joint control	647	654	678	678	655	732	769
Property, equipment and intangible assets	14,406	14,396	14,449	14,449	12,434	12,558	12,578
Tax assets	16,934	17,175	18,019	16,888	16,836	17,058	16,919
Non-current assets held for sale and discontinued operations	3,609	751	627	627	788	778	783
Other assets	19,405	20,168	22,843	22,843	18,931	20,623	24,335
Total Assets	**793,718**	**793,160**	**794,528**	**797,292**	**791,301**	**793,324**	**790,842**

Liabilities and Shareholders' Equity	2018			2017			
	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due to banks at amortised cost	97,675	96,907	99,992	99,992	100,000	99,831	103,006
Due to customers at amortised cost and securities issued	424,785	417,691	416,635	416,635	416,774	411,618	412,703
Financial liabilities held for trading	39,482	39,753	41,459	41,221	41,717	42,556	44,825
Financial liabilities designated at fair value	4	4	3	3	3	4	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,413	1,394	1,312	1,312	1,397	1,341	1,333
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	70,337	69,058	68,233	68,233	65,466	62,891	60,637
Tax liabilities	2,121	2,554	2,515	2,515	2,228	2,139	2,351
Liabilities associated with non-current assets held for sale and discontinued operations	261	266	264	264	296	295	302
Other liabilities	19,695	20,594	19,958	20,218	18,504	27,982	24,200
Technical reserves	79,842	82,656	82,926	82,926	83,211	83,593	84,405
Allowances for risks and charges	6,876	7,241	7,427	7,219	7,043	7,018	5,444
of which allowances for commitments and financial guarantees given	*473*	*503*	*535*	*327*	*399*	*440*	*547*
Share capital	8,732	8,732	8,732	8,732	8,732	8,732	8,732
Reserves	37,212	40,796	33,578	36,843	37,301	37,300	40,273
Valuation reserves	-1,366	-760	-878	-1,206	-2,327	-2,240	-2,555
Valuation reserves pertaining to insurance companies	3	429	417	417	419	404	398
Equity instruments	4,103	4,103	4,103	4,103	4,102	4,102	3,358
Minority interests	364	490	536	549	547	520	526
Net income (loss)	2,179	1,252	7,316	7,316	5,888	5,238	901
Total Liabilities and Shareholders' Equity	**793,718**	**793,160**	**794,528**	**797,292**	**791,301**	**793,324**	**790,842**

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

The Intesa Sanpaolo Group's consolidated assets and liabilities amounted to 794 billion euro as at 30 June 2018, essentially stable (-0.1%) compared with the beginning of the year. Given the essential stability of amounts due to customers, which were affected by the reclassifications to non-current assets held for sale and discontinued operations, the decline in amounts due from banks and other items of assets was offset by the growth of financial assets measured at fair value through other comprehensive income. Among liabilities, there was a significant increase in amounts due to customers at amortised cost and

securities issued, offset by a decline in amounts due to banks at amortised cost, financial liabilities held for trading and technical reserves.

Loans to customers

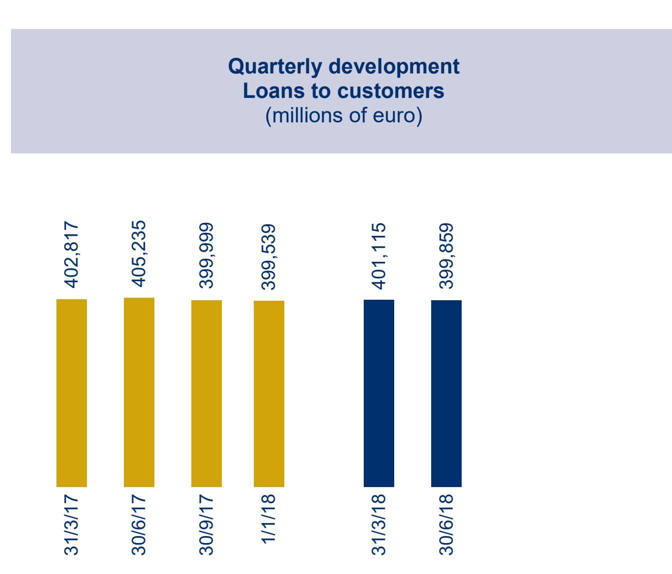
(millions of euro)

	30.06.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	21,133	5.3	22,082	5.6	-949	-4.3
Mortgages	175,008	43.8	173,163	43.3	1,845	1.1
Advances and other loans	148,482	37.1	144,424	36.1	4,058	2.8
Commercial banking loans	**344,623**	**86.2**	**339,669**	**85.0**	**4,954**	**1.5**
Repurchase agreements	**31,521**	**7.9**	**31,483**	**7.9**	**38**	**0.1**
Loans represented by securities	**5,337**	**1.3**	**5,859**	**1.5**	**-522**	**-8.9**
Non-performing loans	**18,378**	**4.6**	**22,528**	**5.6**	**-4,150**	**-18.4**
Loans to customers	**399,859**	**100.0**	**399,539**	**100.0**	**320**	**0.1**

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

Loans to customers at the Group level amounted to approximately 400 billion euro as at 30 June 2018, essentially stable from the beginning of the year (+0.1%).
Loan growth was driven by the positive performance of commercial banking loans (+5 billion euro or +1.5%), particularly mortgage loans (+1.9 billion euro) and advances and other loans (+4.1 billion euro). By contrast, there were declines in non-performing loans (-4.2 billion euro), due in part to the classification among discontinued operations of the bad loans soon to be sold to Intrum and loans represented by securities (-0.5 billion euro).
In the domestic medium-/long-term loan market, disbursements to households in the first half of 2018 (including the small business accounts having similar needs to family businesses) reached 10.4 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 8.4 billion euro. During the period, medium-/long-term disbursements to segments included in the scope of the Corporate Division amounted to 6.1 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy amounted to 25.5 billion euro. On the whole, medium-/long-term disbursements for the Group in the first half of 2018, including the international subsidiary banks' operations, were 30.5 billion euro.
As at 30 June 2018, the Group’s share of the Italian domestic market was estimated at 18% for total loans. This estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figures for the end of June are not yet available.

Quarterly development
Loans to customers
(millions of euro)



(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Banca dei Territori	214,093	212,433	1,660	0.8
Corporate and Investment Banking	116,880	114,317	2,563	2.2
International Subsidiary Banks	29,715	28,610	1,105	3.9
Private Banking	8,868	7,988	880	11.0
Asset Management	278	361	-83	-23.0
Insurance	-	22	-22	
Total business areas	**369,834**	**363,731**	**6,103**	**1.7**
Corporate Centre	30,025	35,808	-5,783	-16.2
Intesa Sanpaolo Group	**399,859**	**399,539**	**320**	**0.1**

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

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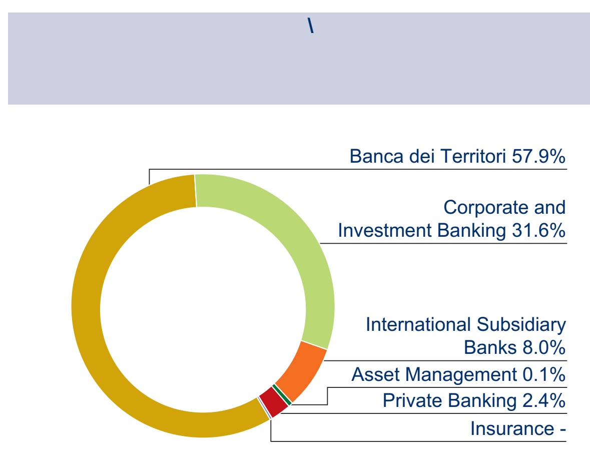


In the analysis of loans by business area, the Banca dei Territori Division, which accounts for 58% of the aggregate of the Group's business areas, recorded a year-to-date increase of 1.7 billion euro (+0.8%), due to the growth in medium-/long-term loans to individuals and businesses. The Corporate and Investment Banking Division's loans were up by 2.6 billion euro (+2.2%), driven largely by the increase in structured finance business with international customers and large groups. The loans of the International Subsidiary Banks Division also grew (+3.9%) due to the increase in the loans issued by the subsidiaries operating in Slovakia, Croatia and Serbia. Turning to the other business divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division increased by 11%, driven by the growth of repurchase agreements with institutional customers.

The decline at the level of the Corporate Centre is to be attributed to the deleveraging process associated with the Capital Light Bank and, to a lesser extent, the reduction in repurchase agreements with central counterparties.

Loans to customers: credit quality

(millions of euro)

	30.06.2018		01.01.2018		Change
	Net exposure	**% breakdown**	**Net exposure**	**% breakdown**	**Net exposure**
Bad loans	7,521	1.9	10,562	2.6	-3,041
Unlikely to pay	10,334	2.6	11,592	2.9	-1,258
Past due loans	523	0.1	374	0.1	149
Non-Performing Loans	**18,378**	**4.6**	**22,528**	**5.6**	**-4,150**
Non-performing loans in Stage 3 (subject to impairment)	*18,310*	*4.6*	*22,456*	*5.6*	-4,146
Non-performing loans designated at fair value through profit or loss	*68*	*-*	*72*	*-*	-4
Performing loans	**376,113**	**94.1**	**371,152**	**92.9**	**4,961**
Stage 2	*47,162*	*11.8*	*50,111*	*12.5*	-2,949
Stage 1	*328,458*	*82.2*	*320,726*	*80.3*	7,732
Performing loans designated at fair value through profit or loss	*493*	*0.1*	*315*	*0.1*	178
Performing loans represented by securities	**5,337**	**1.3**	**5,859**	**1.5**	**-522**
Stage 2	*380*	*0.1*	*639*	*0.2*	-259
Stage 1	*4,957*	*1.2*	*5,220*	*1.3*	-263
Loans held for trading	**31**	**-**	**-**	**-**	**31**
Total loans to customers	**399,859**	**100.0**	**399,539**	**100.0**	**320**
of which forborne performing	***7,562***		***7,626***		***-64***
of which forborne non-performing	***6,277***		***6,704***		***-427***
Loans to customers classified as discontinued operations (*)	**3,265**		**279**		**2,986**

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

(*) As at 30 June 2018, this caption included the portfolio of bad loans to be sold to Intrum (which has decreased since date of the agreement, mainly due to collections received in the meantime, to a gross exposure amount of 10,330 million euro, total adjustments of 7,559 million euro and a net exposure of 2,771 million euro) and high risk loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides for their transfer to the Banks in compulsory liquidation (gross exposures of 572 million euro, total adjustments of 78 million euro, net exposure of 494 million euro). As at 31 December 2017, the caption included the high risk loans; the figures for the portfolio of bad loans to be sold to Intrum have not been restated.

As at 30 June 2018, the Group's net non-performing loans, which at the end of the half-year no longer included the bad loans to be sold to Intrum, classified among non-current assets held for sale and discontinued operations, amounted to 18.4 billion euro, down by 18.4% compared with the beginning of the year, continuing the gradual decline witnessed in the previous year. There was also a significant decrease in non-performing assets as a percentage of total net loans to customers to 4.6%. The coverage ratio for non-performing loans was 53.4%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, bad loans came to 7.5 billion euro, net of adjustments and positions reclassified as discontinued operations, at the end of June 2018, down (-28.8%) compared with the beginning of the year, and represented 1.9% of total loans. Duringthe same period, the coverage ratio stood at 67.1%. Loans included in the unlikely to pay category amounted to 10.3 billion euro, down by 10.9%, accounting for 2.6% of total loans to customers, with a coverage ratio of 35.2%. Past due loans amounted to 523 million euro, up by 39.8% since the beginning of the year, with a coverage ratio of 22.9%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 6.3 billion euro, with a coverage ratio of 39.4%, while forborne exposures in the performing loans category amounted to 7.6 billion euro.
Overall, the coverage ratio of performing loans remained stable at 0.6%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

Customer financial assets

(millions of euro)

	30.06.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	430,976	45.4	423,738	44.8	7,238	1.7
Direct deposits from insurance business and technical reserves	151,538	16.0	152,403	16.1	-865	-0.6
Indirect customer deposits	515,998	54.4	520,779	55.1	-4,781	-0.9
Netting (a)	-150,133	-15.8	-151,092	-16.0	-959	-0.6
Customer financial assets	**948,379**	**100.0**	**945,828**	**100.0**	**2,551**	**0.3**

Figures restated, where necessary and material, 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).

Customer financial assets exceeded 948 billion euro as at 30 June 2018, up slightly compared with the beginning of the year, due to the increase in direct deposits from banking business that offset the decline in indirect funding generated by assets under administration. The increase in the aggregate is much more pronounced over a twelve-month period.

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.

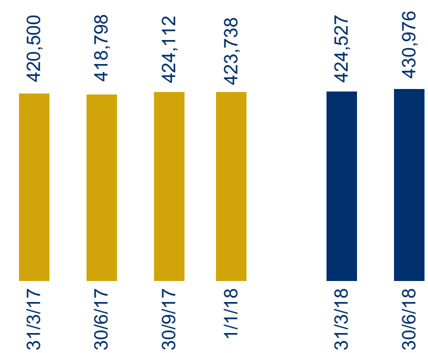
(millions of euro)

	30.06.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	295,833	68.7	288,899	68.2	6,934	2.4
Repurchase agreements and securities lending	30,378	7.0	21,303	5.0	9,075	42.6
Bonds	65,153	15.1	68,773	16.2	-3,620	-5.3
Certificates of deposit	5,697	1.3	4,913	1.2	784	16.0
Subordinated liabilities	11,231	2.6	13,411	3.2	-2,180	-16.3
Other deposits	22,684	5.3	26,439	6.2	-3,755	-14.2
of which designated at fair value (*)	*6,191*	*1.4*	*7,103*	*1.7*	*-912*	*-12.8*
Direct deposits from banking business	**430,976**	**100.0**	**423,738**	**100.0**	**7,238**	**1.7**

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

(*) Figures included in the Balance sheet under Financial liabilities held for trading and Financial liabilities designated at fair value.

Quarterly development
Direct deposits from banking business
(millions of euro)



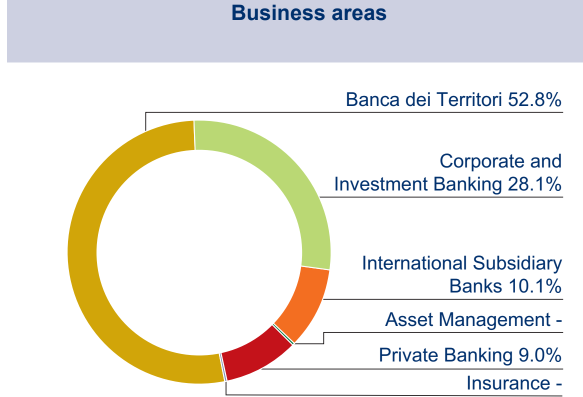
Direct deposits from banking business reached 431 billion euro, up by 1.7% over the half-year, with uneven performances by the various types of deposits.
In particular, growth was driven by current accounts and deposits (+6.9 billion euro) and repurchase agreements (+9.1 billion euro), which more than offset the decline in bonds (-3.6 billion euro), subordinated liabilities (-2.2 billion euro) and other funding (-3.8 billion euro), impacted by the decline in Banca IMI certificates and in commercial paper.
As at 30 June 2018, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18.3%. As described above in reference to loans, this estimate is based on the sample deriving from the ten-day report produced by the Bank of Italy.

(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Banca dei Territori	194,186	191,976	2,210	1.2
Corporate and Investment Banking	103,288	107,148	-3,860	-3.6
International Subsidiary Banks	37,234	35,862	1,372	3.8
Private Banking	33,175	31,410	1,765	5.6
Asset Management	6	6	-	-
Insurance	-	-	-	-
Total business areas	**367,889**	**366,402**	**1,487**	**0.4**
Corporate Centre	63,087	57,336	5,751	10.0
Intesa Sanpaolo Group	**430,976**	**423,738**	**7,238**	**1.7**

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

Business areas



In the analysis of deposits by business area, the Banca dei Territori Division, which accounts for 53% of the aggregate of the Group’s business areas, recorded an increase of 2.2 billion euro (+1.2%), due to the growth in amounts due to customers. The Corporate and Investment Banking Division recorded a decline (-3.9 billion euro or -3.6%) due to securities issued, particularly by the Irish subsidiary and the financial institutions and, to a lesser extent, financial liabilities measured at fair value. The progress achieved by the International Subsidiary Banks Division (+1.4 billion euro or +3.8%) should be viewed in conjunction with the performance of the amounts due to customers of the subsidiaries operating in Slovakia, Croatia and Romania. The Private Banking Division reported growth of 1.8 billion euro (+5.6%), concentrated in customer current account deposits. The increase in the Corporate Centre's funding was largely due to the repurchase agreements with Cassa Compensazione e Garanzia.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.06.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value IAS39 (*)	**70,291**	**46.4**	**68,166**	**44.8**	**2,125**	**3.1**
Index-linked products	*1*	*-*	*1*	*-*	*-*	*-*
Unit-linked products	*70,290*	*46.4*	*68,165*	*44.8*	*2,125*	*3.1*
Technical reserves	**79,842**	**52.7**	**82,926**	**54.3**	**-3,084**	**-3.7**
Life business	79,107	52.2	82,248	53.9	-3,141	-3.8
Mathematical reserves	*70,109*	*46.3*	*71,320*	*46.8*	*-1,211*	*-1.7*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*6,049*	*4.0*	*5,843*	*3.8*	*206*	*3.5*
Other reserves	*2,949*	*1.9*	*5,085*	*3.3*	*-2,136*	*-42.0*
Non-life business	735	0.5	678	0.4	57	8.4
Other insurance deposits (***)	**1,405**	**0.9**	**1,311**	**0.9**	**94**	**7.2**
Direct deposits from insurance business and technical reserves	**151,538**	**100.0**	**152,403**	**100.0**	**-865**	**-0.6**

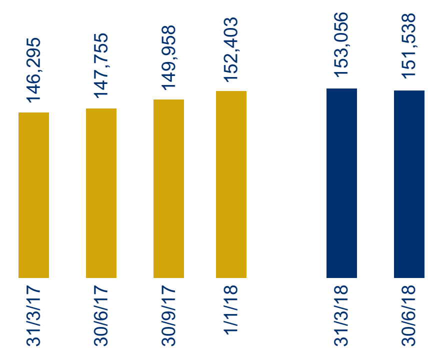
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(*) Values included in the Balance Sheet under Financial liabilities pertaining to insurance companies measured at fair value to IAS 39

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

(***) Values included in the Balance Sheet under Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39. The caption includes subordinated liabilities.

Quarterly development
Direct insurance deposits and technical reserves
(millions of euro)



Direct deposits from insurance business amounted to 152 billion euro as at 30 June 2018, down by 0.6% since the beginning of the year. Technical reserves, which constitute the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, decreased by 3.7% since the beginning of the year, largely offset by the more dynamic component of financial liabilities measured at fair value. Such liabilities increased by 2.1 billion euro (+3.1%), entirely attributable to the contribution of unit-linked products.

Indirect customer deposits

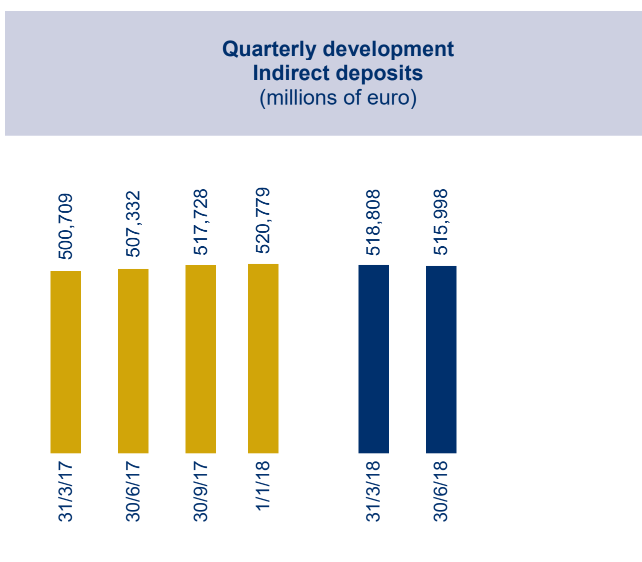
(millions of euro)

	30.06.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds [(a)]	120,763	23.4	119,684	23.0	1,079	0.9
Open-ended pension funds and individual pension plans	8,631	1.7	8,221	1.5	410	5.0
Portfolio management [(b)]	56,370	10.9	59,173	11.4	-2,803	-4.7
Technical reserves and financial liabilities of the insurance business	141,370	27.4	140,567	27.0	803	0.6
Relations with institutional customers	12,716	2.5	11,895	2.3	821	6.9
Assets under management	**339,850**	**65.9**	**339,540**	**65.2**	**310**	**0.1**
Assets under administration and in custody	**176,148**	**34.1**	**181,239**	**34.8**	**-5,091**	**-2.8**
Indirect customer deposits	**515,998**	**100.0**	**520,779**	**100.0**	**-4,781**	**-0.9**

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

(a) The caption includes mutual funds established and managed by Eurizon Capital, Banca Fideuram - Intesa Sanpaolo Private Banking (formerly 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, and the contribution of funds established by third parties and managed by Banca Fideuram - Intesa Sanpaolo Private Banking, whose value is included in assets under administration and in custody.

(b) 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.



As at 30 June 2018, the Group's indirect customer deposits amounted to 516 billion euro, down slightly (-0.9%) since the beginning of the year. The decline was due to the decrease in assets under administration, whereas assets under management remained essentially stable.

Assets under management, which account for nearly two-thirds of the total aggregate, were up by 0.3 billion euro during the period (+0.1%), due to placement by the distribution networks. The product for which investors showed the strongest preference was investment funds, which were up by approximately 1.1 billion euro, followed by insurance products (+0.6%). In the period, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 10.2 billion euro. Open-ended pension funds and individual pension policies (+5%) and business with institutional customers (+6.9%) performed more dynamically, albeit with a more modest weight. By contrast, portfolio management schemes, which declined by 4.7%, were impacted by unfavourable market performance, which detracted from their returns.

Assets under administration declined by over 5 billion euro (-2.8%), attributable to securities and third-party products in customer portfolios and, to a lesser extent, business with institutional customers.

Financial assets and liabilities – *Excluding insurance companies*

(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Financial assets held for trading	39,877	39,653	224	0.6
of which financial derivatives at fair value	*23,845*	*23,616*	*229*	*1.0*
of which credit derivatives at fair value	*911*	*1,160*	*-249*	*-21.5*
Financial assets designated at fair value	209	214	-5	-2.3
Financial assets mandatorily measured at fair value	2,072	2,299	-227	-9.9
Financial assets at fair value through profit or loss	**42,158**	**42,166**	**-8**	**-**
Financial assets at fair value through other comprehensive income	**61,811**	**59,960**	**1,851**	**3.1**
Instruments measured at amortised cost which do not constitute loans	**12,181**	**11,557**	**624**	**5.4**
Total financial assets	**116,150**	**113,683**	**2,467**	**2.2**
Financial liabilities held for trading (*)	**-33,295**	**-34,359**	**-1,064**	**-3.1**
of which financial derivatives at fair value	*-24,921*	*-24,663*	*258*	*1.0*
of which credit derivatives at fair value	*-996*	*-1,243*	*-247*	*-19.9*

Figures restated, where necessary and material, 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 deposits from banking business table.

In accordance with IFRS 7, it is disclosed that upon the first-time adoption of IFRS 9 the financial assets reclassified to amortised cost from fair value measurement comprise debt securities with a nominal value of 2,740 million euro and a fair value of 3,060 million euro as at 30 June 2018.
Since the financial assets in question were previously classified as available for sale under IAS 39, a loss of 14 million euro would have been recorded in the Statement of other comprehensive income (OCI) in the first half of 2018 if the assets in question had not been reclassified.
The table above shows the composition of other financial assets and liabilities, excluding insurance companies. Financial liabilities held for trading do not include protected capital certificates, which are included in the direct deposits from banking business aggregates.
Total financial assets, excluding insurance companies, were up by 2.2% compared with the beginning of the year, whereas financial liabilities held for trading declined by 3.1%.

Net financial assets and liabilities at fair value through profit or loss – *Excluding insurance companies*

(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Bonds and other debt securities at fair value through profit or loss	14,006	13,952	54	0.4
of which designated at fair value (fair value option)	*209*	*214*	*-5*	*-2.3*
Equities and quotas of UCI at fair value through profit or loss	*3,396*	*3,438*	*-42*	*-1.2*
Other assets at fair value through profit or loss	-	-	-	-
of which designated at fair value (fair value option)	-	-	-	-
Financial assets at fair value through profit or loss (excluding derivative contracts)	**17,402**	**17,390**	**12**	**0.1**
Financial liabilities held for trading (excluding derivative contracts) (*)	**-7,378**	**-8,453**	**-1,075**	**-12.7**
Net value of financial derivatives	-1,076	-1,047	29	2.8
Net value of credit derivatives	-85	-83	2	2.4
Net value of trading derivatives	**-1,161**	**-1,130**	**31**	**2.7**
Financial assets / liabilities, net at fair value through profit or loss	**8,863**	**7,807**	**1,056**	**13.5**

Figures restated, where necessary and material, 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 deposits from banking business table.

Net financial assets and liabilities at fair value through profit or loss, excluding insurance companies, amounted to approximately 8.9 billion euro, up by 13.5% compared with 1 January 2018. This increase was mainly driven by the reduction in financial liabilities held for trading (-1.1 billion euro).

Other financial assets at fair value through other comprehensive income – *Excluding insurance companies*

(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Equities at fair value through other comprehensive income	3,110	3,163	-53	-1.7
Debt instruments designated at fair value through other comprehensive income	58,701	56,797	1,904	3.4
of which Stage 3	*1*	*1*	*-*	*-*
of which Stage 2	*346*	*604*	*-258*	*-42.7*
of which Stage 1	*58,354*	*56,192*	*2,162*	*3.8*
Financial assets designated at fair value through other comprehensive income	**61,811**	**59,960**	**1,851**	**3.1**

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

Other financial assets at fair value through other comprehensive income, excluding insurance companies, amounted to 61.8 billion euro, up by 3.1% during the half-year due to debt securities, particularly those classified to Stage 1. The equity securities component, which has a marginal weight, declined moderately.

Securities measured at amortised cost which do not constitute loans – *Excluding insurance companies*

(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Instruments measured at amortised cost which do not constitute loans	**12,181**	**11,557**	**624**	**5.4**
of which Stage 3	*5*	*-*	*5*	*-*
of which Stage 2	*3,285*	*3,374*	*-89*	*-2.6*
of which Stage 1	*8,891*	*8,183*	*708*	*8.7*

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

Securities measured at amortised cost which do not constitute loans, excluding insurance companies, exceeded 12 billion euro, of which 73% was classified to Stage 1.

Financial assets and liabilities pertaining to insurance companies in accordance with IAS 39

(millions of euro)

	30.06.2018	01.01.2018	Changes	
			amount	%
Financial assets held for trading	364	490	-126	-25.7
of which financial derivatives at fair value	*27*	*10*	*17*	
of which credit derivatives at fair value	*1*	*-*	*1*	*-*
Financial assets designated at fair value	76,937	74,715	2,222	3.0
Financial assets available for sale	74,928	77,377	-2,449	-3.2
Investments held to maturity	-	-	-	-
Loans to Banks	651	405	246	60.7
Loans to customers	31	18	13	72.2
Total Financial assets of insurance companies pursuant to IAS 39	**152,911**	**153,005**	**-94**	**-0.1**
Financial liabilities held for trading (*)	46	67	-21	-31.3
of which financial derivatives at fair value	*46*	*65*	*-19*	*-29.2*
of which credit derivatives at fair value	*-*	*2*	*-2*	
Due to Banks	8	1	7	
Financial liabilities pertaining to insurance companies measured pursuant to IAS39	**54**	**68**	**-14**	**-20.6**

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

(*) Value included in the Balance Sheet caption under “Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial assets and liabilities pertaining to insurance companies in accordance with IAS 39, summarised in the table above, amounted to 153 billion euro and 54 million euro, respectively.

Net interbank position

The net interbank position as at 30 June 2018 stood at net debt of 27.9 billion euro, down slightly compared to 1 January 2018 (net debt of 28.3 billion euro). Amounts due to banks, equal to 97.7 billion euro, include a 61.1 billion euro exposure to the ECB, following participation in the TLTRO II refinancing operations.

Exposure to sovereign risk by country of residence of the counterparty

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity			
EU Countries	**9,453**	**42,990**	**1,792**	**49,477**	**103,712**	**14,582**
Austria	-	1	149	2	152	-
Belgium	-	316	26	6	348	-
Bulgaria	-	-	-	61	61	-
Croatia	-	1,002	77	90	1,169	1,111
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	1,119
Denmark	-	23	2	-	25	-
Estonia	-	-	-	-	-	-
Finland	-	36	24	8	68	-
France	305	4,051	-459	106	4,003	5
Germany	-	4,877	438	491	5,806	-
Greece	-	-	67	-	67	-
Hungary	-	1,016	49	32	1,097	18
Ireland	-	204	-14	113	303	-
Italy	8,777	18,585	1,054	46,809	75,225	11,907
Latvia	-	9	-	-	9	43
Lithuania	-	5	5	-	10	-
Luxembourg	-	25	-	-	25	-
Malta	-	-	-	-	-	-
Netherlands	-	110	322	92	524	-
Poland	17	40	-10	16	63	-
Portugal	-	-	-60	-	-60	-
Romania	-	57	1	168	226	9
Slovakia	-	450	35	-	485	122
Slovenia	-	143	-	7	150	196
Spain	354	11,951	-23	1,376	13,658	52
Sweden	-	-	129	-	129	-
United Kingdom	-	89	-20	100	169	-
North African Countries	**-**	**1,042**	**-**	**4**	**1,046**	**-**
Algeria	-	-	-	-	-	-
Egypt	-	1,042	-	4	1,046	-
Libya	-	-	-	-	-	-
Morocco	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-
Japan	**-**	**-**	**723**	**-**	**723**	**-**

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

Shareholders' equity

As at 30 June 2018, the Group's shareholders' equity, including the net income for the period, came to 50,863 million euro compared to the 53,268 million euro at the beginning of the year. The decline in equity was due to the distribution of the 2017 net income.

Valuation reserves

(millions of euro)

	Reserve 01.01.2018	Change of the period	Release to Retained earnings (in case of sale)	Reserve 30.06.2018	
					incidence %
Financial assets designated at fair value through other comprehensive income (debt instruments)	120	-600	-	-480	35.2
Financial assets designated at fair value through other comprehensive income (equities)	72	71	-	143	-10.5
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Foreign investment hedges	-	-	-	-	-
Cash flow hedges	-916	55	-	-861	63.2
Foreign exchange differences	-1,000	-22	-	-1,022	75.0
Non-current assets held for sale and discontinued operations	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	-	-	-	-
Actuarial profits (losses) on defined benefit pension plans	-675	-1	-	-676	49.6
Portion of the valuation reserves connected with investments carried at equity	-63	6	-	-57	4.2
Fair value measurement of property and equipment and legally-required revaluations	1,584	3	-	1,587	-116.4
Valuation reserves (excluding valuation reserves pertaining to insurance companies pursuant to IAS 39)	**-878**	**-488**	**-**	**-1,366**	**100.2**
Valuation reserves pertaining to insurance companies	**417**	**-414**	**-**	**3**	**-0.2**

Valuation reserves recorded a decline of 488 million euro in the banking component and of 414 million euro in the insurance component, primarily due to the reduction in the fair value of government bonds.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	30.06.2018		31.12.2017
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	32,833	36,012	38,051
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,342	5,342	5,414
TIER 1 CAPITAL	**38,175**	**41,354**	**43,465**
Tier 2 capital net of regulatory adjustments	7,802	6,983	7,908
TOTAL OWN FUNDS	**45,977**	**48,337**	**51,373**
Risk-weighted assets			
Credit and counterparty risks	244,656	246,575	249,784
Market and settlement risk	17,322	17,322	17,833
Operational risks	17,962	17,962	18,597
Other specific risks (a)	524	524	611
RISK-WEIGHTED ASSETS	**280,464**	**282,383**	**286,825**
% Capital ratios			
Common Equity Tier 1 capital ratio	11.7%	12.8%	13.3%
Tier 1 capital ratio	13.6%	14.6%	15.2%
Total capital ratio	16.4%	17.1%	17.9%

(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 June 2018 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.
The regulations governing own funds provided for the gradual introduction of the Basel 3 framework based on a transitional period, during which some elements to be fully included in or deducted from Common Equity when the framework is "fully loaded" only have a partial percent impact on Common Equity Tier 1 capital. With effect from 2018, these transitional provisions no longer apply, with the exception of the filter on valuation reserves for actuarial gains or losses (IAS 19), for which a specific transitional treatment is still in place, although it will expire after the current year. Specific transitional provisions (i.e. grandfathering) also remain in place for subordinated instruments that do not meet the Basel 3 requirements, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (ending in 2022).
As already discussed in detail, application of IFRS 9 - Financial Instruments, endorsed by Regulation (EU) 2016/2067 of 22 November 2016, in replacement of the previous standard IAS 39, has become mandatory from 1 January 2018. Accordingly, first-time adoption (FTA) of the Standard took effect from the accounting date of 1 January 2018. This entailed the restatement of the financial instruments according to the new classification criteria and the recalculation of their values, where necessary, to take account of the new impairment and classification rules. The effects of this process, in respect of first-time adoption only, have been recognised through shareholders' equity.
On the subject of the introduction of IFRS 9, on 12 December 2017 the European Parliament enacted Regulation (EU) 2017/2395 updating the CRR by adding the new Article 473a "Introduction of IFRS 9", which allows banks to mitigate the impacts on own funds of the introduction of the new accounting standard.
In this regard, the Intesa Sanpaolo Group chose to adopt the "static approach" envisaged in the aforementioned Regulation. This approach permits the re-inclusion in Common Equity of a gradually decreasing amount, ending in 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022), of the impact of IFRS 9, calculated net of the tax effect, based on the comparison of the IAS 39 adjustments as at 31 December 2017 and the IFRS 9 adjustments as at 1 January 2018, excluding the reclassification of financial instruments, and after eliminating the shortfall as at 31 December 2017.
Regulation (EU) 2017/2395 also lays down the reporting obligations that entities are required to publish, while charging the EBA with issuing specific guidelines on this subject. In implementation of the Regulation, on 12 January 2018, the EBA issued specific guidelines according to which banks that adopt a transitional treatment of the impact of IFRS 9 (such as the static approach mentioned above) are required to publish, with quarterly frequency, the fully loaded consolidated figures (as if the transitional treatment had not been applied) and the transitional consolidated figures for Common Equity Tier 1 (CET1) capital, Tier 1 capital, total capital, total risk-weighted assets, capital ratios and the leverage ratio.
As at 30 June 2018, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 48,337 million euro, against risk-weighted assets of 282,383 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. As at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 45,977 million euro, compared to risk-weighted assets of 280,464 million euro.
Common Equity Tier 1 capital includes the net income for the first half of 2018, less the related dividend, calculated on the basis of the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

With regard to the POP (Performance-based Option Plan) – a long-term incentive plan for top management, risk-takers and strategic managers – the effect of the exercise of the right of novation, whereby Intesa Sanpaolo attributed the obligation to deliver the shares to the POP Counterparty, essentially representing an alternative approach to direct purchase of own shares on the market by Intesa Sanpaolo, was accounted for as a decline in equity of 160 million euro, with the ensuing reduction in Common Equity Tier 1 capital of like amount.
On the basis of the foregoing, solvency ratios as at 30 June 2018, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 12.8%, a Tier 1 ratio of 14.6% and a total capital ratio of 17.1%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 June 2018 were as follows: a Common Equity ratio of 11.7%, a Tier 1 ratio of 13.6% and a total capital ratio of 16.4%.
You are reminded that, on 22 December 2017, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2018, in light of the results of the Supervisory Review and Evaluation Process (SREP). The capital requirement at consolidated level in terms of Common Equity Tier 1 ratio is 8.145% under the transition arrangements in force for 2018 and 9.33% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.06.2018	31.12.2017
Group Shareholders' equity	50,863	56,205
Minority interests	364	399
Shareholders' equity as per the Balance Sheet	**51,227**	**56,604**
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	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-5	-9
- Minority interests eligible for inclusion in T2	-3	-5
- Ineligible minority interests on full phase-in	-333	-335
- Ineligible net income for the period (a)	-1,932	-3,500
- Treasury shares included under regulatory adjustments	131	94
- Other ineligible components on full phase-in	-65	-24
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**44,414**	**48,219**
Regulatory adjustments (including transitional adjustments) (b)	**-8,402**	**-10,168**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,012**	**38,051**

(a) Common Equity Tier 1 capital as at 30 June 2018 includes the net income for the first half of 2018, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 June 2018 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (95% in 2018) set to decrease progressively until 2022.

Breakdown of consolidated results by business area and geographical 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 in accordance with 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 half of 2018.
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 first half of the year; 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 and if they are material.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
30.06.2018	4,744	2,105	967	952	370	620	-342	9,416
30.06.2017	4,290	1,681	941	947	369	595	-250	8,573
30.06.2017 Aggregate	4,633	1,694	944	956	369	595	-314	8,877
% change [(a)]	2.4	24.3	2.4	-0.4	0.3	4.2	8.9	9.8
Operating costs								
30.06.2018	-2,676	-510	-477	-280	-77	-85	-505	-4,610
30.06.2017	-2,396	-496	-448	-283	-72	-85	-447	-4,227
30.06.2017 Aggregate	-2,831	-497	-460	-286	-72	-85	-540	-4,771
% change [(a)]	-5.5	2.6	3.7	-2.1	6.9	-	-6.5	9.1
Operating margin								
30.06.2018	2,068	1,595	490	672	293	535	-847	4,806
30.06.2017	1,894	1,185	493	664	297	510	-697	4,346
30.06.2017 Aggregate	1,802	1,197	484	670	297	510	-854	4,106
% change [(a)]	14.8	33.2	1.2	0.3	-1.3	4.9	-0.8	10.6
Net income (loss)								
30.06.2018	772	1,135	366	461	232	388	-1,175	2,179
30.06.2017	789	805	520	446	235	360	2,083	5,238
30.06.2017 Aggregate	737	814	510	450	235	360	2,132	5,238
% change [(a)]	4.7	39.4	-28.2	2.4	-1.3	7.8		-58.4
Loans to customers								
30.06.2018	214,093	116,880	29,715	8,868	278	-	30,025	399,859
01.01.2018	212,433	114,317	28,610	7,988	361	22	35,808	399,539
% change [(b)]	0.8	2.2	3.9	11.0	-23.0		-16.2	0.1
Direct deposits from banking business								
30.06.2018	194,186	103,288	37,234	33,175	6	-	63,087	430,976
01.01.2018	191,976	107,148	35,862	31,410	6	-	57,336	423,738
% change [(b)]	1.2	-3.6	3.8	5.6	-	-	10.0	1.7
Risk-weighted assets								
30.06.2018	96,417	80,855	30,799	10,178	918	-	63,216	282,383
31.12.2017	92,983	80,485	30,767	10,218	914	-	71,458	286,825
% change [(b)]	3.7	0.5	0.1	-0.4	0.4	-	-11.5	-1.5
Absorbed capital								
30.06.2018	8,919	7,481	3,401	982	99	4,040	5,847	30,769
31.12.2017	8,601	7,446	3,415	986	99	4,040	6,610	31,197
% change [(b)]	3.7	0.5	-0.4	-0.4	-	-	-11.5	-1.4

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

(a) The change expresses the ratio between 30.06.2018 and 30.06.2017 Aggregate.

(b) The change expresses the ratio between 30.06.2018 and 1.1.2018 where not specified otherwise.

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	30.06.2018	30.06.2017	Changes vs 30.06.2017		30.06.2017 Aggregate	Changes vs 30.06.2017 Aggregate	
			amount	%		amount	%
Net interest income	2,352	2,168	184	8.5	2,328	24	1.0
Net fee and commission income	2,331	2,064	267	12.9	2,244	87	3.9
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	37	34	3	8.8	34	3	8.8
Other operating income (expenses)	24	24	-	-	27	-3	-11.1
Operating income	**4,744**	**4,290**	**454**	**10.6**	**4,633**	**111**	**2.4**
Personnel expenses	-1,675	-1,497	178	11.9	-1,766	-91	-5.2
Other administrative expenses	-999	-897	102	11.4	-1,062	-63	-5.9
Adjustments to property, equipment and intangible assets	-2	-2	-	-	-3	-1	-33.3
Operating costs	**-2,676**	**-2,396**	**280**	**11.7**	**-2,831**	**-155**	**-5.5**
Operating margin	**2,068**	**1,894**	**174**	**9.2**	**1,802**	**266**	**14.8**
Net adjustments to loans	-803	-548	255	46.5	-548	255	46.5
Other net provisions and net impairment losses on other assets	-40	-6	34		-11	29	
Other income (expenses)	-	-	-	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**1,225**	**1,340**	**-115**	**-8.6**	**1,243**	**-18**	**-1.4**
Taxes on income	-448	-526	-78	-14.8	-481	-33	-6.9
Charges (net of tax) for integration and exit incentives	-4	-23	-19	-82.6	-23	-19	-82.6
Effect of purchase price allocation (net of tax)	-1	-2	-1	-50.0	-2	-1	-50.0
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-
Net income (loss)	**772**	**789**	**-17**	**-2.2**	**737**	**35**	**4.7**

(millions of euro)

	30.06.2018	01.01.2018	changes	
			amount	%
Loans to customers	214,093	212,433	1,660	0.8
Direct deposits from banking business	194,186	191,976	2,210	1.2
	30.06.2018	**31.12.2017**	**changes**	
			amount	**%**
Risk-weighted assets	96,417	92,983	3,434	3.7
Absorbed capital	8,919	8,601	318	3.7

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Banca dei Territori's operating income was 4,744 million euro in the first half of 2018, equal to around half of the Group's consolidated operating income, up 2.4% on a like-for-like basis compared to the same period of the previous year. In further detail, there was an increase in net fee and commission income (+3.9%), mostly attributable to the asset management segment, which benefited from greater placement and volume growth, bancassurance products and the placement of third-party bonds. Fee and commission income generated by commercial banking services, in particular for current accounts and loans and guarantees, had a positive impact. Net interest income was up on the first six months of 2017 (+1%), driven by growth in customer dealing. Among the other revenue components, which nevertheless provide a marginal contribution to Division's income, net profits (losses) on financial assets and liabilities at fair value increased (+8.8%), while other operating income declined (-11.1%). Operating costs, equal to 2,676 million euro, were down compared to the first half of the previous year (-5.5%), mainly due to the savings on personnel and administrative expenses. The operating margin amounted to 2,068 million euro, up 14.8% on the same period of the previous year. Gross income, amounting to 1,225 million euro, declined (-1.4%) due to higher adjustments and provisions. After allocation to the Division of charges for integration of 4 million euro and the economic effects of purchase price allocation for 1 million euro, net income amounted to 772 million euro, up 4.7%.

At the quarterly level, revenue declined in the second quarter compared with the first, mainly due to the lower contribution from fee and commission income, impacted by unfavourable market performance. Gross income was also less than in the previous quarter due to net adjustments, which exceeded savings on administrative expenses.

The balance sheet figures at the end of June 2018 showed loans to customers of 214,093 million euro, up (+1.7 billion euro, or +0.8%) compared to the beginning of the year, as a result of the increase in medium/long term loans to individuals and businesses. Direct deposits from banking business, amounting to 194,186 million euro, showed an increase (+2.2 billion euro, +1.2%), driven by amounts due to 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 company specialised in medium-term lending, leasing, factoring, advisory services and structured finance transactions, reporting to the Business Unit.
Organisational structure	
Retail Individuals and Businesses Sales & Marketing, SME Sales & Marketing and Multichannel Integration	Overseeing the Retail sector, which consists of the segments Retail Individuals (families and other individuals with financial assets of up 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 and 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.
Mediocredito Italiano	Specialised in medium-term lending, leasing, factoring, advisory services and structured finance operations to support the needs of investment, development and innovation of businesses and the local areas.
Banca 5	A “proximity bank”, linked with a non-captive network of points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Banca Prossima	Serves non-profit organisations.
Distribution structure	Approximately 4,300 branches, including Retail and Business branches, distributed broadly throughout Italy. The network structure consists of 8 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 7 April 2018, Banca Nuova was merged by incorporation into Intesa Sanpaolo according to the integration plan for the former Venetian Banks, which became a part of the Group at the end of June 2017.

Retail Individuals and Businesses Sales & Marketing, SME Sales & Marketing and Multichannel Integration

Investment

Diversification of customer portfolios continued during the half-year. The offer of investment products was extended by: 47 new mutual funds; the Class I policy "Progetto Dedicato", reserved as a "welcoming product" for customers of the former Banca Popolare di Vicenza and Veneto Banca; the placement of 21 certificates issued by Banca IMI and four bonds of third-party issuers. The advanced advisory service for retail and personal customers launched in 2017, "Valore Insieme", was also expanded. It is divided into three suites offering increasing levels of assistance, based on an analysis of customers' needs, for custom solutions in various areas: securities, real estate, protection and security and generational transfer.

Transactional products

"BancoCard Basic" and "BancoCard Plus" are the two new Intesa Sanpaolo debit cards that combine normal functionality with the ability to make contactless payments of up to 25 euro without entering a PIN.

Loans

Intesa Sanpaolo is the first Italian bank to provide financing under the APE Volontario programme (cash advances against pension entitlement), an experimental system introduced by the 2017 Budget Act and extended into 2019, available to workers wishing to retire early who meet certain requirements. The financing is structured as an income bridge with a maximum term of 43 months and an amount selected by the customer in view of his or her future retirement pension, paid monthly until the customer begins to collect a pension.

Mortgages

The range of mortgage loans for private individuals covers all aspects of customers' home ownership dreams and needs with innovative products such as "Mutuo Giovani" and "MutuoUp". A free new service, "Mutuo In Tasca", is also available to customers interested in purchasing a home who have not yet chosen a property. The service provides six months to look for home, with the certainty of being able to count on the Bank's financial support, and a transparent understanding of the amount and term of the mortgage loan that may be granted. The service can also provide advances to cover down payments and pay notary's and estate agent's fees.

Protection

An Insurance Questionnaire was introduced to develop insurance advice and increase the level of protection cover. In accordance with the Insurance Distribution Directive currently being transposed into Italian law, the Questionnaire explores customers' insurance needs and current cover to generate a custom commercial proposal. In June, the product catalogue for private individuals was expanded in the Health, Home and Family area to include "XME Protezione", a flexible and modular multi-cover insurance solution that provides protection for customers and their families under a single policy with cover that can be modified over time and a structure of increasing discounts based on the number of cover types.

Young people

The range of innovative products dedicated to those under the age of 18 was expanded to include the new account "XME Conto UP!" which grows along with the customer, offering a modular range of transaction products personalised to suit the accountholder's age, with an emphasis on teaching the value of savings. Agreements also continued to be reached with new partners in connection with "PerTe Prestito Con Lode", a flexible product that meets young people's increasing educational needs. As part of the "Alternanza Scuola-Lavoro" work-study project, promoted to foster knowledge of the working world for young people in the last three years of secondary school, training workshops were organised, with opportunities for active learning.

Multichannel Project

Intesa Sanpaolo strengthened its position in the multi-channel and digital banking segments, with 7.7 million multi-channel customers and 7.4 million apps downloaded, becoming Italy's leading digital bank. The range of products and services available online was expanded, with the gradual roll-out to customers of the new wallet for digital payments, XME Pay, and the revamped Investments section of the Internet banking website. The online branch network continued to grow, with two new branch locations, bringing the total to 13 branches and 879 employees, including online managers and coordinating personnel. Online branches create synergy with the brick-and-mortar network, providing informational, operational and commercial support, along with relationship support for customers and prospects, through telephone calls, chats, video chats, e-mails and social networks. During the half-year year, the online branch network sold 36,000 products remotely, including loans, payment cards, investments and protection products.

Agreements

The addendum "Promoting a new business culture for sustainable growth" was signed within the framework of the 2017-2019 agreement with Confindustria Piccola Industria, aimed at promoting the acceleration, digitalisation and competitiveness of businesses by providing them with access to a total pool of financing of 90 billion euro to allow companies to take advantage of the opportunities provided by the "fourth industrial revolution". The addendum's contents regard training, generational handover, value chains and economic, social and environmental sustainability. Under the Impresa 4.0 National Plan, to support and facilitate processes of innovation, investment in new technologies and the digitalisation of businesses, agreements continued to be signed with trade associations, to provide ad hoc assistance to member businesses and their customers, in the form of loans, non-financial services, sales support, specific measures to

facilitate internationalisation and exports, training and collaboration in the design of innovative projects. In support of the Italian tourism industry, Intesa Sanpaolo signed a partnership agreement with the Ministry of Cultural Heritage and Activities and Tourism, making available a three-year funding plan of 5 billion euro to companies in tourism and related industries, intended for the renovation and modernisation of hospitality facilities, improved accessibility of destinations, higher quality hospitality services and training for operators through processes of innovation and digitalisation. The agreement is to culminate in the drafting of a comprehensive Pact for Tourism 4.0 aimed at fostering the development of the industry.

Internationalisation

Intesa Sanpaolo and the Italian Trade Agency (ICE) signed a new agreement to facilitate the growth of Italian companies abroad by supporting them in all stages of the internationalisation process with advice, training and information. The partnership with SACE (a member of the CDP group) was also reinforced through the signing of three agreements intended to provide the tools needed by companies in the international growth process, from medium-/long-term "International+" loans, for which a funding of 100 million euro has been made available, to contractual guarantees for the award and performance of international contracts and the implementation of supply arrangements, confirmation of the export letters of credit used to pay for goods and services and debt recovery services.

Loans

In relation to the Impresa 4.0 National Plan and the measures contained in the 2018 Stability Law regarding tax incentives for investments in new business assets required for technological renewal, Intesa Sanpaolo extended the solutions introduced the previous year in support of business growth involving, in addition to specialist support, medium-/long-term loans, with various possible combinations available. In support of investments in Italian businesses, through Mediocredito Italiano the Group provided innovative small, medium and micro-enterprises with 300 million euro, as part of a programme supported by the European Investment Fund and the European Commission. Each loan has a maximum amount of 7.5 million euro and is subject to favourable financial conditions. Half of the total funding made available will benefit from the European InnovFin guarantee, which will allow for the funding of particularly innovative projects and lending to companies with higher risk profiles.
Intesa Sanpaolo has joined "Resto al Sud", an initiative focused on start-ups launched by young residents of Southern Italy, promoted by the Italian Ministry of the Economy, Invitalia (Italy's National Agency for Promotion of Investment and Business Development) and the Italian Banking Association, with total financial resources of 1.250 billion euro made available by the Development and Cohesion Fund. Intesa Sanpaolo is supporting young people in pursuing their entrepreneurial endeavours by providing financing solutions such as Crescita Impresa and NeoImpresa, which cover 65% of expenses, while Invitalia is offering an outright grant covering the remaining 35% and a grant covering the interest due to the Bank.
For new business customers registered with the register of innovative start-ups, the Bank has launched the offer "Startup Innovative", a set of products at discounted prices that complements the other initiatives aimed at making the Bank a key player in training and acceleration in this segment, such as "B Heroes", a programme promoted in collaboration with IM Foundation.

Agriculture

As part of the continuing commitment to supporting the growth and development of Italian agricultural and food businesses signalled by the three-year agreement with the Ministry of Agricultural, Food and Forestry Policies (MIPAAF) "Diamo credito all'agroalimentare italiano" which calls for funding of 8 billion euro for the period 2017-2019, within the framework of the master agreement between the Italian Banking Association and MIPAAF, Intesa Sanpaolo renewed its agreements with regional authorities (AVEPA, AGREA, ARCEA and AGEA) to permit agricultural companies located in the territories in question to enjoy immediate access to the grants provided under the 2018 Common Agricultural Policy. In addition, the Bank renewed its agreement with the European Investment Bank to provide funding of 150 million euro in support of the projects pursued by companies in the agricultural and food industry.

Sviluppo Filiere

Support continued to be provided for businesses through the "Sviluppo Filiere" programme, which focuses on the relationship between companies and their suppliers and reached over 589 participating lead companies by the end of the half-year, with 15,000 potential suppliers, for a turnover of over 70 billion euro.

Product companies

In the first half of 2018, Mediocredito Italiano recorded a sales volume of medium- and long-term products of 3.8 billion euro, (+19.8% compared with the same period of 2017), whilst factoring turnover was 29.5 billion euro (-5.1%).
Mediocredito Italiano disbursed loans totalling 3 billion euro, (+25.5% compared to the first six months of the previous year). With 2.7 billion euro of loans disbursed (+25%), the Banca dei Territori Division accounts for 87.5% of total volumes, whilst the Corporate and Investment Banking Division, with 371 million euro (+28%), represents 11.9% of volumes disbursed. "Subito Mediocredito" accounted for 19% of the Banca dei Territori Division's lending.
The Specialist Desks dedicated to the principal economic sectors generated medium-/long-term loan disbursements of 500 million euro (16.4% of the total disbursed during the period), up by 149 million euro compared with the same period in 2017. During the half-year, the Structured Finance Advisory organisational unit originated loans of 320 million euro (101 million euro in the same period of the previous year).
In the first half of 2018, Mediocredito Italiano entered into new leasing contracts with a value of 749 million euro (+0.7% compared to the first half of the previous year). Contracts entered into by customers of the Banca dei Territori Division amounted to 646 million euro (-11 million euro), representing 86.3% of total volumes. Customers in the Corporate Division signed contracts totalling 86 million euro (+22 million euro), equal to 11.5% of total volumes. Among leasing products,

instrumental leases and real estate leases accounted for 44% and 47% of total volumes contracted (-2.8% and +6.3% on the first half of 2017, respectively). The weight of motor products remained around 9%, whereas the contribution of energy products continued to be marginal.
Turning to the factoring business, in the first half of 2018, Mediocredito reported a turnover of 29.5 billion euro (-5.1% on the same period of 2017), retaining its number-one position in the domestic market by turnover, with share of nearly 28%. Non-recourse factoring accounted for 85% of factoring business, down compared to the same period of the previous year. At the end of June 2018, the amount outstanding declined to 13.3 billion euro (-7.9% compared with the beginning of the year) and advances amounted to 11 billion euro (-9.5%). 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 amount to 7.2 billion euro (-8.2% on the first six months of 2017), accounting for 24.3% of total turnover.

Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.
In the first half of the year, the bank consolidated its collection and payment services business, remaining the preferred banking partner to non-captive points of sale and expanding the services it offers to retail customers, in keeping with the strategic objectives set out in the 2018-2021 Business Plan, by setting up 3,000 points of sale to distribute bearer prepaid cars, the SPID service, payment accounts, various types of insurance cover and other retail products.
The bank has approximately 17,100 non-captive customer points of sale (-1% on December 2017) spread throughout Italy and approximately 17,000 retail customers who have downloaded the Banca 5 app, for a total of 13,000 cards sold and 1,000 active payment accounts.
In the B2B segment (services for tobacconists), the average productivity of tobacconists increased, even though the number of locations in Italy remained essentially unchanged compared with the previous year.
In support of revenue growth and reinforcement of Banca 5's position, in the B2C segment (services for citizens and new offering of Banca 5 products), a service offered at points of sale that allows deposits to and withdrawals from current accounts held with Intesa Sanpaolo branches and Banca 5 is currently being implemented with the aim of further reinforcing Banca 5's role in the Group as corner or "proximity" bank.

Banca Prossima

Banca Prossima operates in the non-profit sector through 84 local branches and 232 specialists distributed throughout Italy. During the half-year, the bank continued acquiring new customers for the Group, with around 63,700 customers at the end of June 2018. Financial assets amounted to 5.8 billion euro, of which 3.7 billion euro in direct deposits, while lending operations presented an approved amount of 2.7 billion euro (of which 1.9 billion euro had been used).
During the half-year, the business plan that will guide the activities of the bank for the whole year was structured: approximately 30 initiatives were realised to develop the relationship with non-profit organisations and better meet their needs.
Innovative Group initiatives such as the Welfare Hub platform or the distribution of Credit Protection policies were extended to Banca Prossima customers. EIB financing continued to be marketed under the current agreement during the half-year, resulting in the disbursement of four loans with a value of over 15 million euro. In crowdfunding initiatives, over 100 projects have now been published on the Terzo Valore portal and collaboration with the Group's fund-raising portal, For Funding, continued. In order to support the new business endeavours of young people in Southern Italy, Banca Prossima also joined the "Resto al Sud" programme, involving incentives guaranteed by the Central Guarantee Fund for SMEs. Finally, the bank organised meetings throughout Italy as opportunities for reflection on financial matters such as market scenarios and investment proposals in collaboration with Eurizon.

Corporate and Investment Banking

(millions of euro)

Income statement	30.06.2018	30.06.2017	Changes vs 30.06.2017		30.06.2017 Aggregate	Changes vs 30.06.2017 Aggregate	
			amount	%		amount	%
Net interest income	816	819	-3	-0.4	830	-14	-1.7
Net fee and commission income	436	475	-39	-8.2	475	-39	-8.2
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	849	381	468		383	466	
Other operating income (expenses)	4	6	-2	-33.3	6	-2	-33.3
Operating income	**2,105**	**1,681**	**424**	**25.2**	**1,694**	**411**	**24.3**
Personnel expenses	-201	-196	5	2.6	-196	5	2.6
Other administrative expenses	-304	-295	9	3.1	-296	8	2.7
Adjustments to property, equipment and intangible assets	-5	-5	-	-	-5	-	-
Operating costs	**-510**	**-496**	**14**	**2.8**	**-497**	**13**	**2.6**
Operating margin	**1,595**	**1,185**	**410**	**34.6**	**1,197**	**398**	**33.2**
Net adjustments to loans	-15	-148	-133	-89.9	-148	-133	-89.9
Other net provisions and net impairment losses on other assets	-4	-23	-19	-82.6	-23	-19	-82.6
Other income (expenses)	-	109	-109		109	-109	
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**1,576**	**1,123**	**453**	**40.3**	**1,135**	**441**	**38.9**
Taxes on income	-439	-316	123	38.9	-319	120	37.6
Charges (net of tax) for integration and exit incentives	-2	-2	-	-	-2	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-
Net income (loss)	**1,135**	**805**	**330**	**41.0**	**814**	**321**	**39.4**

(millions of euro)

	30.06.2018	01.01.2018	changes	
			amount	%
Loans to customers	116,880	114,317	2,563	2.2
Direct deposits from banking business (a)	103,288	107,148	-3,860	-3.6
	30.06.2018	**31.12.2017**	**changes**	
			amount	**%**
Risk-weighted assets	80,855	80,485	370	0.5
Absorbed capital	7,481	7,446	35	0.5

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

(a) The item includes capital protected certificates.

In the first half of 2018, the **Corporate and Investment Banking Division** recorded operating income of 2,105 million euro (representing over 20% of the Group's consolidated total), up 24.3% on a like-for-like basis compared to the same period of last year.
In detail, net interest income of 816 million euro was down (-1.7%), mainly as a result of the lesser contribution from customer dealing. Net fee and commission income, amounting to 436 million euro, fell by 8.2%, mainly due to the performance of the commercial banking segment, particularly on loans and guarantees, and of the investment banking segment. Profits on financial assets and liabilities at fair value more than doubled, reaching 849 million euro, partly due to the positive effect of 264 million euro resulting from the fair value measurement of the investment in NTV. Operating costs amounted to 510 million euro, up on the first six months of 2017 (+2.6%), due to higher administrative and personnel expenses, driven by the increase in the average workforce related to business development. As a result of the above revenue and cost trends, the operating margin rose by 33.2% to 1,595 million euro. Gross income, amounting to 1,576 million euro, was up 38.9% due to lower

adjustments and provisions. Net income came to 1,135 million euro, compared to 814 million for the same period of the previous year (+39.4%).
In the second quarter of 2018, the Corporate and Investment Banking Division recorded a reduction in revenues and in the main income results compared to the first quarter, which had benefited from the positive effect of the fair value measurement of the investment in NTV.

The Division's intermediated volumes decreased slightly compared to the beginning of the year (-0.6%). In detail, loans to customers, amounting to 116,880 million euro, increased by 2.6 billion euro (+2.2%), mainly due to the increase in structured financial business and operations with international customers and large groups, whereas direct deposits from banking business, amounting to 103,288 million euro, posted a decline (-3.9 billion euro, -3.6%), attributable to securities issued, particularly by the Irish subsidiary and financial institutions and, to a lesser extent, financial liabilities at fair value.

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	
Global Corporate Department	The Department develops and manages relationships with Italian and foreign corporates with diverse needs and multinational presence, and with domestic public entities. It ensures the provision of a global, integrated offering of products and services by specific economic sector for customers under its remit, integrating traditional commercial banking products and services with those of investment banking and capital markets, pursuing cross-selling of products and services overseen by the Corporate and Investment Banking Division, by other Divisions and by the Group's product companies, availing itself centrally of the commercial action of the Industry units, and locally of the Italian network (Areas) and of the international network of the International Department. The specialist coverage by industry includes all industrial sectors: Automotive & Industrials; Basic Materials & Healthcare; Energy; Food & Beverage and Distribution; Infrastructure & Real Estate Partners; Public Finance; Retail and Luxury; Telecom, Media and Technology. The Business Solutions industry also manages highly complex customers, transversally across the various sectors.
International Department	The Department ensures the international development of the Division in agreement with the other relationship and product structures, ensures the correct management of operational and commercial activities of the international branches and representative offices and oversees the management of the international subsidiary banks (Intesa Sanpaolo Bank Luxembourg S.A., Intesa Sanpaolo Bank Ireland Plc and Intesa Sanpaolo Brasil S.A. - Banco Multiplo, Banca Intesa-Russia), ensuring their overall coordination.
Financial Institutions Department	The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its highly sophisticated approach to relations with such customers is widely 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 has a total of 28 branches dedicated to corporate customers and public customers. At the international level, it operates in 25 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.

Global Corporate Department

In the first half of 2018, the Global Corporate Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of investment banking transactions to the benefit of Italian and international customers. Support continued to be provided to corporate and public customers, drawing on the specialised expertise developed with the industry model. In addition, to reinforce origination activity, two specialist teams were set up with the aim of developing strategic investment banking and structured finance deals, while improving cross-industry commercial coverage. In accordance with the International Growth project – a part of the Business Plan – international commercial growth efforts continued in support of important international counterparties.
The Group participated in numerous syndicated loans, including those to TIM, Coty, Financiere Agache, Philip Morris, General Motors, FCA, Leonardo, Telefonica, HeidelbergCement, Acciona, Iberdrola and Mubadala. Mention should also be made of the role of arranger for the financing in support of the partial redemption of the initial equity contribution to Dunkerque LNG SAS (EDF Group), for BlackRock in its photovoltaic development project in Australia and for Petronas in financing for two projects in APAC; as well as the roles of mandated lead arranger in project-financing deals for Freeport and of bookrunner for Cheniere Energy in the USA.
In the Middle East and North Africa, new customer development initiatives were implemented, in particular with the Dubai Electricity and Water Authority and TAQA (Abu Dhabi Electricity and Water Authority). Attention should also be drawn to support for acquisition financing for Takeda in the Shire deal and for the acquisition of General Cable by Prysmian. The Group also took part in the acquisition of Prét-à-Manger by JAB, of the super-premium tequila Patrón by the Bacardi group and of ASDA by Sainsbury’s. The Group supported the acquisition of Monsanto by Bayer, acting as bookrunner in the syndication of the acquisition finance and the euro bond issue, as joint bookrunner in the capital increase and as co-manager of the dollar bond issue. In equity capital markets business, the Bank participated in the capital increase by Immobiliare Grande Distribuzione SIIQ and the public tender offer by ACS/Hochtief and Atlantia. In M&A deals, it acted as financial advisor to the fund HG Capital in the acquisition of Dada and as advisor in the sale of various Enel installations to the fund F2i.
In debt capital markets operations, the Bank acted as co-manager in the KME bond issue and as bookrunner in the bond issues by Gavio, TIM, IGT, RCI Banque, General Motors, Pirelli, ACEA, Gas Natural Fenosa, EP Infrastructure, Iberdrola and Piaggio.
Moreover, in synergy with the Banca dei Territori Division, "Programma Filiere" continued with the aim of promoting production chains of excellence in the Italian entrepreneurial system. Corporate welfare projects were also launched through the digital Welfare Hub platform and a Referral Agreement was signed with the insurance broker AON for the offering of brokerage services to the Division's corporate customers.
Finally, the range of services offered to international customers was expanded to include the confirming platform that the Bank made available to its customers in partnership with a leading international firm.

International Department

In the first half of 2018, the International Department continued work on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets. As part of projects aimed at increasing competitiveness on customers, coverage and products in markets of strategic interest, the Department defined specific interventions to optimise synergies and opportunities for cross-selling corporate and investment banking products on various target customers.
In business with international customers, mention should be made with the Bank's senior role in several syndicated loans, including a facility to finance the spin-off of Accor's hotel business and loans in support of the acquisition of Westfield by Unibail-Rodamco in the shopping centre business and of GKN by the industrial holding company Melrose. In the rest of the world, various project financing transactions were concluded in Asia-Pacific, such as Project Beach Energy, involving the acquisition of Australian oil and gas assets. In Africa, financing was provided for the importation of medicine and food by the Republic of Angola.
The Division’s current international network is present in 25 countries through 14 wholesale branches, 11 representative offices and four subsidiary banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A. and Banca Intesa-Russia).

Financial Institutions Department

In the first half of 2018, the Financial Institutions Department, in synergy with Banca IMI, continued to assist its Italian and international customers in particularly complex and strategically important deals. In the banking sector, it provided advice and financing in the restructuring and sale of problematic assets, acted as joint bookrunner in senior debt issues and provided refinancing of the debt associated with the acquisition of NEXI (former ICBP). It also took part in the IPO by DWS Group, Deutsche Bank's asset manager, and acted as financial advisor to the holding company Cassa Centrale Banca.
In business with non-banking customers (asset managers, insurers and non-banking financial services), the Group structured new products for the insurance business. It also finalised financing – typically through securitisation – for asset managers in support of extraordinary operations (Anima Holding – Poste Italiane agreement), for non-banking financial services companies (Compass, Agos and Pitagora) and for alternative funds and servicers, in support of loan portfolios in particular (Algebris and Intrum). In real estate, it granted structured loans to institutional operators to acquire and restructure real-estate portfolios.
During the period, the Group participated in the placement of securities on behalf of the Ministry of the Economy and Finance and Cassa Depositi e Prestiti, in addition to collaborating with institutional investors such as occupational pension funds and banking foundations. It also supported export financing for Italian customers in Sub-Saharan Africa and the Middle East and

played a leading role in projects in infrastructure, oil and gas and aviation in Turkey, Oman, Zambia, Angola and Qatar. Mention should be made of the commodities financing deals in Russia and Kazakhstan for Uralkali, Suek and KazmunaiGas.
In the supply chain finance and receivables discounting sector, the Bank developed business primarily with U.S. (Dell) and European customers. Having regard to financial sponsors (private-equity funds, sovereign wealth funds and special-purpose acquisition companies), the Group concluded various deals, such as the acquisition of Forno d'Asolo by BC Partners and financing for the acquisition of HTL-Strefa by Artsana/Pikdare. Finally, as part of its International Growth project, the Group increased its focus on international commercial development, primarily in major European countries, with the introduction of a dedicated team based in London.

Global Transaction Banking Department

During the half-year, the Global Transaction Banking Department created various innovative solutions/partnerships to offer internationalisation services involving cash management, commercial acquiring and trade finance, with a particular focus on developing the offerings of international branches. The Department designed commercial proposals for multinational groups and international customers with the aim of strengthening business outside of Italy. At the commercial level, priority was also given to developing the European market.
The Department also actively participates in events and is implementing a multi-faceted strategy that will allow it to increase promotion of transaction banking products and services to customers.

Proprietary Trading

In the first half of 2018, Proprietary Trading reported a decline in revenues on the first half of 2017, driving its contribution into negative territory.
The risk exposure to structured credit products amounted to 1,938 million euro as at 30 June 2018 with respect to funded and unfunded ABSs/CDOs, compared to 2,279 million euro as at 31 December 2017. In this context, the exposure to funded and unfunded ABSs/CDOs at fair value went from 2,034 million euro in December 2017 to 1,731 million euro at the end of June 2018.
The Hedge Fund portfolio as at 30 June 2018 amounted to 214 million euro in the Trading Book and approximately 90 million euro in the Banking Book, compared to 416 million euro and 19 million euro respectively in December 2017.
The reduction of the Trading Book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure. The amounts allocated to the banking book relate to investments in funds that pursue medium-/long-term investment strategies.

Global Markets and Corporate & Strategic Finance

In the first half of 2018, Banca IMI succeeded in achieving a sound performance despite the period of high volatility. In the Global Markets Securities Area, futures and ETF business increased. On the other hand, fixed income was affected by the decrease in business volumes in relation to the uncertainties that complicated efforts to devise long-term strategies. The Market Hub platform performed excellently on MTA markets, fixed income markets (MOT and ETLX) and listed derivatives, with sharp increases in intermediated volumes compared with the first half of the previous year.
The Finance & Investments area performed well, pursuing diversified strategies and a strategic position on the global and peripheral government bond yield curve. Market Treasury managed the liquidity position in view of optimal net interest income in accordance with the liquidity policy. Collateralised netting sets continued to be optimised to minimise capital and liquidity absorption. The Investment Strategy & Portfolio Analysis desk increased turnover in equity and credit positions and leveraged the generic hedging strategies for the Bank's main risk profiles. The Securitisation desk was involved in the securitisation of portfolios of performing loans originated by Italian banks and financial intermediaries, in some cases through subscription for ABSs.
In equity capital markets business, Banca IMI acted as global coordinator in the IPO by Spaxs, as joint bookrunner in the capital increase by IGD and as joint global coordinator in the placement of the shares of NB Aurora, the first permanent capital fund listed on Borsa Italiana's MIV market. At the international level, the bank acted as joint bookrunner in the capital increase by Bayer and as coordinator in the mandatory public tender offer for Dada's shares and the voluntary total public tender offer by Richemont for the shares of Yoox Net-A-Porter.
In debt capital markets, Banca IMI acted as bookrunner for the issue of the green bond and hybrid dual-tranche notes by Enel, as well as of the multi-tranche bonds issued by AB-Inbev, Bayer, Telefonica and Maple Escrow. In the corporate high-yield segment, the bank also handled the issue by Selecta Group and, in the financial institutions segment, placements by Intesa Sanpaolo in euro and dollars in multiple tranches and bond issues by numerous other Italian (including Mediobanca) and international banks, in addition to the 20-year BTPs issued by the Italian Republic and the Cassa Depositi e Prestiti bond issue.
In M&A Advisory, it supported Senfter Holding with the sale to Unibon of the 50% interest in Grandi Salumifici Italiani, Progressio SGR with the acquisition of 65% of Forest, BC Partners with the acquisition of the majority of Forno d'Asolo, and ACSM AGAM with the merger with other multiutilities.
In structured finance business, in the first half of 2018, Banca IMI reported an increase in intermediated volumes in leveraged and acquisition finance transactions, focusing on the project financing and corporate financing market. Origination activity focused on deals with an appropriate risk/return profile, including cross-selling with the Bank's other products.

The international presence was strengthened at the London, New York and Hong Kong hubs. The Italian desks completed important financing deals aimed at project development and acquisitions, including some cross-border deals, as well as the refinancing of existing transactions, such as the acquisition of Abertis Infraestructuras by Atlantia, EF Kosmos, AccorInvest Group, Coin, L'Aromatika, HTL-Strefa and Guala. Significant support continued to be provided to customers by the Italian network, through the efforts of Leveraged Finance (Comdata) and Corporate Loan Structuring (GSA Group, Caronte and Tecnomeccanica).

International Subsidiary Banks

(millions of euro)

Income statement	30.06.2018	30.06.2017	Changes vs 30.06.2017		30.06.2017 Aggregate	changes vs 30.06.2017 Aggregate	
			amount	%		amount	%
Net interest income	642	650	-8	-1.2	650	-8	-1.2
Net fee and commission income	258	239	19	7.9	241	17	7.1
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	103	78	25	32.1	79	24	30.4
Other operating income (expenses)	-36	-26	10	38.5	-26	10	38.5
Operating income	**967**	**941**	**26**	**2.8**	**944**	**23**	**2.4**
Personnel expenses	-259	-242	17	7.0	-247	12	4.9
Other administrative expenses	-177	-168	9	5.4	-174	3	1.7
Adjustments to property, equipment and intangible assets	-41	-38	3	7.9	-39	2	5.1
Operating costs	**-477**	**-448**	**29**	**6.5**	**-460**	**17**	**3.7**
Operating margin	**490**	**493**	**-3**	**-0.6**	**484**	**6**	**1.2**
Net adjustments to loans	-24	-76	-52	-68.4	-78	-54	-69.2
Other net provisions and net impairment losses on other assets	2	6	-4	-66.7	6	-4	-66.7
Other income (expenses)	2	200	-198	-99.0	200	-198	-99.0
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**470**	**623**	**-153**	**-24.6**	**612**	**-142**	**-23.2**
Taxes on income	-97	-95	2	2.1	-94	3	3.2
Charges (net of tax) for integration and exit incentives	-8	-8	-	-	-8	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	1	-	1	-	-	1	-
Net income (loss)	**366**	**520**	**-154**	**-29.6**	**510**	**-144**	**-28.2**

(millions of euro)

	30.06.2018	01.01.2018	changes	
			amount	%
Loans to customers	29,715	28,610	1,105	3.9
Direct deposits from banking business	37,234	35,862	1,372	3.8

	30.06.2018	31.12.2017	changes	
			amount	%
Risk-weighted assets	30,799	30,767	32	0.1
Absorbed capital	3,401	3,415	-14	-0.4

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

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.

The figures presented above and commented on below include the non-performing assets of CIB Bank (FUT) and the figures for Pravex Bank (both previously under the scope of the Capital Light Bank), as well as the Bucharest branch (former Venetian Banks), included in Intesa Sanpaolo Bank Romania, Veneto Banka Sh.A. (Albania) and Veneto Banka d.d. (Croatia). Eximbank has been consolidated with effect from 1 April 2018 but was excluded from the 2017 figures. Finally, Banca Intesa Russia is not included within the scope of the Division, as it has been assigned to the Corporate and Investment Banking Division in accordance with the targets set out in the 2018-2021 Business Plan.

In the first half of 2018, the Division's operating income came to 967 million euro, up 2.4% compared to the same period of the previous year (+3.4% at like-for-like exchange rates). A detailed analysis shows that net interest income came to 642 million euro, compared to 650 million euro in the first six months of 2017 (-1.2%), mainly due to the performance reported by PBZ, including Intesa Sanpaolo Banka Bosna i Hercegovina, Intesa Sanpaolo Bank Slovenia and Veneto Banka d.d. (total of -15 million euro), by VUB Banka (-9 million euro), and by CIB Bank (-7 million euro), which were partly offset by Banca Intesa Beograd (+7 million euro), Bank of Alexandria (+6 million euro) and by Intesa Sanpaolo Bank Romania (+5 million euro). Net fee and commission income, equal to 258 million euro, increased (+7.1%) compared to the first half of the previous year. The profits (losses) on financial assets and liabilities at fair value, amounting to a profit of 103 million euro, increased (+30.4%) thanks to the higher contribution from VUB Banka (+14 million euro), which benefited from the gain realised on the sale of government securities and the dividends distributed by Bank of Qingdao (+15 million euro), which in 2017 had been booked in July.
Operating costs of 477 million euro increased by 3.7% compared with the same period of 2017 (+4.8% at like-for-like exchange rates). In particular, the increase in personnel expenses (+4.9%) was due to the revision of the incentive system and, to a lesser extent, to the greater costs in Egypt correlated with profit-sharing and compensation for inflation.
As a result of the above revenue and cost trends, the operating margin came to 490 million euro, up 1.2%. Gross income, amounting to 470 million euro, was down on 612 million euro for the first six months of last year (-23.2%), which had benefited from the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence. Excluding this effect there was an increase of 11.4%. The Division closed the first half of 2018 with net income of 366 million euro (-28.2%).
In the second quarter of 2018, the operating margin recorded an improvement compared with the first quarter, driven by increased revenues. Gross income and net income were adversely affected by the increase in net adjustments to loans, against the releases recognised in the first quarter. Net income was essentially stable.

The Division's intermediated volumes increased compared to the end of December 2017 (+3.8%) owing to the positive performance of loans to customers (+3.9%) as well as – mainly – amounts due to customers under direct deposits from banking business (+3.8%).

In the first half of 2018, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, and information technology.
With the aim of reinforcing and optimising the international banks' presence in their territories of reference, an action plan for development of the Slovenian bank was designed within the framework of the Southeastern Europe Hub. During the period, a strategic partnership was also formalised between the Czech and Slovak and Hungarian banks and the governance model defined at the level of the Central Europe Hub was implemented.
In addition, integration of the entity originating from the former Venetian Bank was completed in Romania and continued according to plan in Albania and Croatia.
In commercial dealings, the Customer Relationship Management method continued to be extended to the Corporate-SME segment in Slovakia and the features and services of digital channels to be expanded in Croatia, Hungary and Egypt (the project is in progress for its adoption in Albania). The pilot phase of the programme to adopt the Group's target distribution model continued in Slovakia, Croatia, Serbia and Hungary and the advisory model was implemented in investment services in Hungary. In information technology, the adoption of the target core banking system continued at the Serbian bank, along with the transfer of the Hungarian bank's data centre to Italy.

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, Ukraine and Moldova.
Distribution structure	Around 1,100 branches in 12 countries.

South-Eastern Europe

In the first half of 2018, the operating income of the **Privredna Banka Zagreb** group (including Veneto Banka d.d.) amounted to 249 million euro, down slightly on the same period of 2017 (-1.7%), due to the unfavourable performance of net interest income and other operating income, not completely offset by the increase in fee and commission income and net profits (losses) on financial assets and liabilities at fair value. Operating costs of 103 million euro increased (+3.2%), primarily due to the rising trend in personnel expenses. The operating margin came to 147 million euro (-4.9%). Gross income amounted to 122 million euro (+15.2%), benefiting from the lower adjustments to loans, while net income was 91 million euro (+16.5%).

Banca Intesa Beograd, including Intesa Leasing Beograd, generated an operating margin of 69 million euro, up 8.6% on the first half of 2017. Operating income increased by 7.3%, due to the performance of net interest income and net fee and commission income. Operating costs increased (+5.3%) compared with the first six months of the previous year. Gross income amounted to 57 million euro, up 21.5%, following the lower adjustments to loans and other assets, while net income was 47 million euro (+21.5%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed the first half of 2018 with an operating margin of 11 million euro, up on the first half of the previous year (+3.2%). This performance is attributable to the increase in operating income, which more than offset the growing operating costs. Gross income, amounting to 10 million euro, increased by 25%, while net income came to 8 million euro (+39.1%).

Intesa Sanpaolo Bank Albania (including Veneto Banka Sh.A.) reported an operating margin of 4.2 million euro, down on the same period of 2017 (-44.1%), due to the fall in revenues and the increase in operating costs. Gross income amounted to 4.8 million euro (-45.5%). Net income, equal to 3.8 million, fell by 44.1%.

Intesa Sanpaolo Bank Romania reported an operating margin of 3.2 million, an improvement on the essential break-even of the first half of 2017, due to the increase in operating income (+12.6%), mainly attributable to higher interest income and lower costs (-6%). The company closed the first half with net loss of -1.4 million euro, compared to -3.1 million euro in the first six months of the previous year.

Central-Eastern Europe

Intesa Sanpaolo Bank Slovena reported an operating income of 34 million euro, down by 9.4% on the first half of 2017 due to the lower profits on financial assets and liabilities measured at fair value and net interest income. Operating costs declined on the first half of the previous year (-2.6%). Gross income almost doubled, benefiting from the decline in net adjustments to loans. The same trend was seen in net income, which amounted to 7 million euro in the first half of 2018.

The **VUB Banka** group reported an operating margin of 153 million euro, up on the same period of 2017 (+5.2%), due to the increase in operating income (+4%), driven by profits on financial assets and liabilities measured at fair value and net fee and commission income. Operating costs increased by 2.3%. Gross income amounted to 129 million euro, down by 5.4%, mainly due to greater provisions for risks and charges. Net income came to 93 million euro (-8%).

The **CIB Bank** group had operating income of 79 million euro, down by 11.7% on the first half of 2017, due to the decline in all components, particularly net interest income. Operating costs decreased (-2.3%), especially administrative expenses. Net income came to 38 million euro, up 22.8% on the first half of 2017.

Commonwealth of Independent States & South Mediterranean

Pravex reported a negative operating margin (-1.6 million euro), compared with -2.9 million euro in the first half of 2017, as a result of the increase in operating income (+11%), attributable to the positive performance by net interest income and lower operating costs (-5.7%), particularly other administrative expenses. The company essentially broke even after net adjustments to loans and other assets, compared with a net loss of 1 million euro in the first half of 2017.

Bank of Alexandria reported an operating margin of 86 million euro, up by 3.9% on the first six months of the previous year (+14.1% at like-for-like exchange rates). Operating income of 138 million euro increased (+6%) at the level of all components (+16.4% at like-for-like exchange rates). Operating costs rose (+9.5%; +20.3% at like-for-like exchange rates) across all expense captions. Net income came to 65 million euro, up by 11.8% on the first half of 2017 (+22.7% at like-for-like exchange rates).

Private Banking

(millions of euro)

Income statement	30.06.2018	30.06.2017	Changes vs 30.06.2017		30.06.2017 Aggregate	changes vs 30.06.2017 Aggregate	
			amount	%		amount	%
Net interest income	78	90	-12	-13.3	90	-12	-13.3
Net fee and commission income	856	831	25	3.0	839	17	2.0
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	15	20	-5	-25.0	21	-6	-28.6
Other operating income (expenses)	3	6	-3	-50.0	6	-3	-50.0
Operating income	**952**	**947**	**5**	**0.5**	**956**	**-4**	**-0.4**
Personnel expenses	-167	-165	2	1.2	-165	2	1.2
Other administrative expenses	-109	-110	-1	-0.9	-113	-4	-3.5
Adjustments to property, equipment and intangible assets	-4	-8	-4	-50.0	-8	-4	-50.0
Operating costs	**-280**	**-283**	**-3**	**-1.1**	**-286**	**-6**	**-2.1**
Operating margin	**672**	**664**	**8**	**1.2**	**670**	**2**	**0.3**
Net adjustments to loans	-	-	-	-	-	-	-
Other net provisions and net impairment losses on other assets	-12	-17	-5	-29.4	-17	-5	-29.4
Other income (expenses)	9	-	9	-	-	9	-
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**669**	**647**	**22**	**3.4**	**653**	**16**	**2.5**
Taxes on income	-198	-189	9	4.8	-191	7	3.7
Charges (net of tax) for integration and exit incentives	-10	-12	-2	-16.7	-12	-2	-16.7
Effect of purchase price allocation (net of tax)	-	-	-	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-
Net income (loss)	**461**	**446**	**15**	**3.4**	**450**	**11**	**2.4**

(millions of euro)

	30.06.2018	01.01.2018	changes	
			amount	%
Assets under management [(1)]	116,462	116,202	260	0.2

	30.06.2018	31.12.2017	changes	
			amount	%
Risk-weighted assets	10,178	10,218	-40	-0.4
Absorbed capital	982	986	-4	-0.4

(1) Figures restated in line with consolidated reporting criteria of indirect customer deposits.

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

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, SIREF Fiduciaria, Intesa Sanpaolo Private Bank (Suisse), Fideuram Asset Management Ireland, Fideuram Bank (Luxembourg) and Financière Fideuram.

In the first half of 2018, the Division generated gross income of 669 million euro, up on a like-for-like basis (+16 million euro, +2.5%) compared with the same period of 2017, mainly as a result of the containment of operating costs (-6 million euro), lower provisions (-5 million euro) and a gain of 9 million euro realised on the sale of bonds from the loan portfolio. Operating income declined (-4 million euro).

The decrease in operating income was mainly due to lower net interest income (-12 million euro), net profits (losses) on financial assets and liabilities at fair value (-6 million euro) and other operating income (-3 million euro), only partly offset by the increase in net fee and commission income (+17 million euro). The increase in fee and commission income was related to the growth in average assets under management, which generate recurring fee and commission income, and the positive contribution from the advanced advisory services. Within operating costs, there was a decline in administrative expenses, particularly in terms of costs of third-party services, depreciation and amortisation.
Net income was 461 million euro (+11 million euro, or +2.4%).

The values of assets under administration have been recognised 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 June 2018, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 185.9 billion euro (+0.8 billion euro compared to the beginning of the year). This performance was due to the net inflows, which more than offset the market effect, which had an unfavourable impact on assets in the first six months of the year. The assets under management component amounted to 116.5 billion euro (+0.3 billion euro).

With regard to significant corporate events, on 10 April 2018, the acquisition of 94.6% of the share capital of Morval Vonwiller Holding by Fideuram was completed, following the issue of the necessary authorisations by the competent Supervisory Authorities in March. This transaction is part of the project for the international development of the Private Banking Division set out in the 2018-2021 Business Plan, which identifies the acquisition of the Morval Vonwiller group, operating in private banking and wealth management, with head office in Switzerland and international presence, as a strategic opportunity for expanding operations outside Italy.

On 30 June 2018 (with effect from 1 January 2018 for accounting and tax purposes), the integration of the two fiduciary companies of the Private Banking Division was finalised by merger by incorporation of Fideuram Fiduciaria into Sirefid, which concurrently changed its name to SIREF Fiduciaria, with the aim of creating the first Italian operator dedicated exclusively to fiduciary activities, capable of best meeting the needs of the high-end customers of the Private Banking Division.

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 around 900 in-house private bankers.
SIREF Fiduciaria	A company specialised in providing fiduciary services, created through the merger by incorporation of Fideuram Fiduciaria into Sirefid.
Distribution structure	Network of 222 branches in Italy, five branches abroad and 6,050 financial advisors and private bankers.

Asset Management

(millions of euro)

Income statement	30.06.2018	30.06.2017	Changes	
			amount	%
Net interest income	-	-	-	-
Net fee and commission income	360	322	38	11.8
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	-6	-	6	-
Other operating income (expenses)	16	47	-31	-66.0
Operating income	**370**	**369**	**1**	**0.3**
Personnel expenses	-37	-34	3	8.8
Other administrative expenses	-40	-38	2	5.3
Adjustments to property, equipment and intangible assets	-	-	-	-
Operating costs	**-77**	**-72**	**5**	**6.9**
Operating margin	**293**	**297**	**-4**	**-1.3**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-	-	-	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**293**	**297**	**-4**	**-1.3**
Taxes on income	-56	-56	-	-
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-5	-6	-1	-16.7
Net income (loss)	**232**	**235**	**-3**	**-1.3**

(millions of euro)

	30.06.2018	01.01.2018	changes	
			amount	%
Assets under management	249,756	253,161	-3,405	-1.3

	30.06.2018	31.12.2017	changes	
			amount	%
Risk-weighted assets	918	914	4	0.4
Absorbed capital	99	99	-	-

Figures restated, where necessary and material, 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, assets managed by the Asset Management Division amounted to 249.8 billion euro at the end of June, down by 1.3% on the beginning of the year, as the result of a negative market performance that more than offset the net inflows. The trend in inflows is attributable to the contribution of mutual funds (+2.3 billion euro) and institutional mandates (+1.5 billion euro), mostly concentrated in insurance contracts, which exceeded the outflows relating to the retail sale of portfolio management schemes (-2 billion euro).
As at 30 June 2018, Eurizon Capital’s Italian market share of assets under management was 14.9% (gross of duplications), up since the beginning of the year. Excluding the closed-end funds segment, in which the company does not operate, the share of assets under management at the end of June rose to 15.3%.

Operating income amounted to 370 million euro in the first half of 2018, up slightly (+0.3%) on the same period of the previous year, despite the loss of the contribution of the equity investment in Allfunds Bank (approximately 25 million euro), sold at the end of 2017. In particular, net fee and commission income rose (+11.8%), driven above all by management fees, correlated with the growth of average assets under management, and by placement fees. Operating costs climbed (+6.9%), due to personnel and other administrative expenses, as a result of the upgrade of the operational structures triggered by the increase in volumes under management and the research costs associated with the introduction of the MiFID II regulation.

Despite these increases, the ratio of operating costs to assets under management remained essentially stable over the twelve months.
Given the cost and revenue performance described, the operating margin was 293 million euro, down by 1.3% on the first six months of 2017, which included the aforementioned contribution from Allfunds Bank. Excluding this contribution, the operating margin would have increased by 7.7%.
The Division closed the first half of 2018 with net income, gross of minority interests, of 237 million euro (-1.7%). Excluding the contribution from Allfunds Bank, growth amounted to just under 10%. Finally, net income came to 232 million euro (-1.3%).

With regard to significant events, in the first half of 2018 Eurizon Capital SGR simplified its ownership structure by acquiring 100% of VUB Asset Management and Eurizon Capital (HK) Limited, previously wholly owned subsidiaries of Eurizon Capital S.A.

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 S.A. (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 and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital SGR, established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital SGR, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
PBZ Invest d.o.o. (Croatia)	A Croatian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Croatian mutual funds and offers individual portfolio management services to retail and institutional customers.
CIB Investment Fund Management Ltd (Hungary)	A Hungarian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Hungarian mutual funds and offers individual portfolio management services to retail and institutional customers.
Penghua Fund Management Company Limited	Chinese fund manager 49% owned by Eurizon Capital SGR.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, which conducts research and provides investment and advisory services.
Qingdao Yicai Wealth Management Co. Ltd.	A Chinese company headquartered in Qingdao, 20%-owned by Eurizon Capital SGR, 55%-owned by Intesa Sanpaolo and 25%-owned by Fideuram-Intesa Sanpaolo Private Banking.

Insurance

(millions of euro)

Income statement	30.06.2018	30.06.2017	Changes	
			amount	%
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	626	599	27	4.5
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-6	-4	2	50.0
Operating income	**620**	**595**	**25**	**4.2**
Personnel expenses	-41	-39	2	5.1
Other administrative expenses	-42	-45	-3	-6.7
Adjustments to property, equipment and intangible assets	-2	-1	1	
Operating costs	**-85**	**-85**	**-**	**-**
Operating margin	**535**	**510**	**25**	**4.9**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-2	-	2	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**533**	**510**	**23**	**4.5**
Taxes on income	-136	-138	-2	-1.4
Charges (net of tax) for integration and exit incentives	-1	-2	-1	-50.0
Effect of purchase price allocation (net of tax)	-8	-10	-2	-20.0
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**388**	**360**	**28**	**7.8**

(millions of euro)

	30.06.2018	01.01.2018	changes	
			amount	%
Assets under management (1)	151,584	152,470	-886	-0.6
	30.06.2018	**31.12.2017**	**changes**	
			amount	**%**
Risk-weighted assets	-	-	-	-
Absorbed capital	4,040	4,040	-	-

(1) Including the subordinated securities issued by the companies.

Figures restated, where necessary and material, 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.

The Division’s income from insurance business for the first half of 2018 came to 626 million euro, up by 27 million euro (+4.5%) on the same period of 2017. This positive performance was driven both by the technical margins for life insurance products and the profitability for the protection business.
The cost/income ratio, at 13.7%, remained at excellent levels, a further improvement on the first six months of the previous year.
Gross income was 533 million euro, up by 23 million euro (+4.5%) on the first half of the previous year as a result of higher operating income (+25 million euro), while costs remained stable.
Net income, after the economic effects of purchase price allocation for 8 million euro, amounted to 388 million euro (+7.8%).

Direct deposits from insurance business, amounting to 151,584 million euro, showed a slight decrease (-0.9 billion euro, -0.6%) compared to the beginning of the year, attributable to the decline in technical reserves, which exceeded the increase in financial liabilities pertaining to the insurance segment measured at fair value.

The Division's collected premiums for life policies and pension products amounted to 10.3 billion euro, down on the same period of the previous year. Collected premiums for the life insurance business were concentrated in unit linked products (51%) and multi-line products (36%). Collected premiums for pension products reached 338 million euro, an improvement of 11% on the first half of 2017, thanks to the positive performance of the open pension funds and the individual pension plans.

Collected premiums for the protection business totalled 248 million euro, up by 6.4% on the first half of the previous year, driven by the strong growth of non-motor products, which are the focus of the 2018-2021 Business Plan. In particular, Health and Accident products increased by over 100% and Home and Household products by approximately 40%.

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 is the sole owner of Intesa Sanpaolo Life and Intesa Sanpaolo Assicura and has a 49% interest in Intesa Sanpaolo Smart Care, a 51%-owned subsidiary of Intesa Sanpaolo (Banca dei Territori Division) that markets hardware and software and provides remote assistance services.
Intesa Sanpaolo Life	Specialised in life insurance products with a higher financial content, such as unit-linked products and life insurance policies linked to internal funds.
Intesa Sanpaolo Assicura	Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection.
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.
In the first half of 2018, the Corporate Centre reported a gross loss of 1,213 million euro, compared with a gross loss of 1,535 million euro in the same period of the previous year, in the latter case net of the government grant of 3,500 million euro received to offset the impact of the former Venetian Banks deal on capital ratios. The operating costs of the Corporate Centre, net of the amount charged back to the business units for the performance of the services, governed by specific agreements, showed a significant saving compared to the first six months of 2017. The half-year ended with a net loss of 1,174 million euro, an improvement on the loss of 1,368 million euro recorded in the first half of 2017 (also net of the above grant). The income statement of the Corporate Centre was impacted by the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. These charges, which amounted to 200 million euro, were lower than in the first half of 2017 (489 million euro, including over 300 million euro attributable to the Atlante Fund).
Finally, 13 million euro of net income attributable to minority interests was allocated to the Corporate Centre, compared with a negative 247 million euro at the Aggregate level in the same period of 2017, largely consisting of the overall loss reported by the Aggregate Set of the Venetian Banks.

Capital Light Bank

In the second quarter of 2018, the scope of the Capital Light Bank changed as a result of the elimination of the Ukrainian bank Pravex. Following the conclusion of the de-risking process for the international subsidiary, resulting in a size appropriate to sustainable development, management of this company was incorporated into the International Subsidiary Banks Division.
In the first half of 2018, the ordinary and extraordinary transactions carried out on the assets held by the Capital Light Bank continued with the aim of reducing the non-core assets. The deleveraging achieved since the beginning of the year amounts to approximately 13 billion euro: this figure includes the effects to the sale to Intrum of the portfolio of bad debt positions designated "Savoy" with a gross value of 10.8 billion euro – currently carried among assets held for sale – which will be deconsolidated by the end of the year following the completion of the disposal process. The remaining reduction in assets was primarily due to ordinary activity: recovery procedures continued for the portfolio of bad debt positions under management, resulting in collections of nearly 800 million euro in the first six months of the year. Following the agreement reached with Intrum Justitia, approved by the Board of Directors of Intesa Sanpaolo on 17 April, governing both the sale of the portfolio of bad debt positions mentioned above and the contribution of the debt recovery business unit, the process of closing the transaction remains ongoing and is expected to be completed by late November. Among the various activities affecting the main corporate functions, particular mention should be made of the corporate formalities and authorisation process, the finalisation of the contract set and the preparation of the operations structure in support of the new recovery department, based primarily on an external servicer. Re.O.CO. carried out activities with a view to 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, by choosing the interventions so as to maximise the recovery of bad positions secured by real-estate assets with the goal of minimising the investment of additional capital. In the first half, driven by supporting action and direct participation in auctions for about 160 properties, approximately 10 million euro of properties were bought. Lastly, measures were implemented on loans to public and project finance counterparties and on non-strategic equity investments, aimed at accelerating the natural reduction in those assets.

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.
In the first half of 2018, Intesa Sanpaolo continued to carry out its role in various projects, confirming its role as a critical participant on the ECB settlement platforms (Target2 and Target2 Securities) and cooperating in relation to "Instant Payments". With regard to the instant payments product, the Bank completed the roll-out phase, extending the service to the Parent Company's customers to become one of the leading Italian and European banks in the instant payments market. The major project that will lead to the creation of the new single Central Bank platform has now entered the research and development phase scheduled to end in mid-2019. Intesa Sanpaolo, in addition to participating in the ECB work groups, officially launched a Group internal project in March.
In the first half of 2018, the main European money-market curves showed very short-term yields that remained very close to the Deposit Facility rate. The Eonia swap curve showed clear volatility compared with the end of the previous year, on the 12-to-24-month stretch, with a dip into the range of -0.11% to -0.25%, primarily attributable to the Italian political crisis, followed by stabilisation at this latter level following the announcement of the ECB's monetary policy decisions. In point of fact, in June the European Central Bank announced a further step in the process of normalising its expansionary policy, confirming its March announcement, involving stabilisation of the tapering of government bond purchases to 15 billion euro a month from October to December, in addition to signalling its intention to seek to keep its reference rates unchanged until at least summer 2019.
Turning to the United States, the Federal Reserve raised rates twice, by 25 basis points on each occasion, in March and June, to their current range of 1.75%-2.00%, while also announcing its plan to continue with rate hikes in the near future.
Turning to Intesa Sanpaolo's euro and foreign currency short-term securities funding programmes, the total outstanding amount of such programmes at the end of the half-year remained in line with the level of the end of 2017. It should be noted that the duration of the issues declined slightly in the second quarter due to a more cautious attitude by investors following the period of uncertainty and volatility that is characterising the Italian market.

At the level of the government bond portfolio, the first quarter of 2018 was characterised by increased volatility of equity and credit markets. However, the continuation of the ECB's quantitative stimulus kept European government spreads stable until mid-May. Concerns tied to the new Italian government's policies then further fuelled the larger risk-off movement prompted by a possible tapering of QE, the Federal Reserve's restrictive policies and uncertainty surrounding global trade.
Portfolio transactions were aimed at managing credit risk prudently. In particular, the sensitivity associated with Italian government bonds was reduced at the end of April in response to unfavourable risk/return levels. Moderate purchases were made in June in order to exploit the sharp widening of spreads.
In repo business, the first half of 2018 saw an increase in the volumes of Italian government bonds exchanged on the market compared with the end of the previous year. The spread between core nations and Italian govies rates did not change significantly during the half-year. At the end of June, the widening of the spreads was more modest than in the previous quarter; the increase in repo rates on Italian government bonds was noteworthy.
In terms of medium/long-term funding operations, in the first half of 2018, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 2.42 billion euro. Among the securities placed, there was a prevalence of the component consisting of structured financial instruments at 97% (primarily consisting of equity-linked structures), while the share of plain-vanilla instruments amounted to 3%. A breakdown by average maturity shows that 45% is comprised of financial instruments with 2-, 3- and 4-year maturities, 26% is represented by 5-, 6- and 7-year securities and the remaining 29% by 8- and 10-year securities.
On the international markets, in the first half of 2018, institutional unsecured funding transactions were completed for a total of around 4.4 billion euro through the issue of senior bonds as well as, to a minimum extent, certificates placed with institutional investors. In detail, the following public transactions were undertaken. In January, a senior fixed-rate security was issued for 2.5 billion USD (corresponding to around 2.1 billion euro), aimed at the US market, in three tranches (1 billion USD with a 5-year duration, 1 billion USD with a 10-year duration, and 500 million USD with a 30-year duration). In March a fixed-rate senior bond of 46.6 billion JPY was placed (equivalent to approximately 354 million euro) on the Japanese market, in four tranches: 30.6 billion JPY with a 3-year duration, 4 billion JPY with a 5-year duration, 2 billion JPY with a 10-year duration and 10 billion JPY with a 15-year duration. The bond was the first "Tokyo Pro Bond" issued by the Bank. Lastly, a 10-year senior fixed-rate security was floated for 1.25 billion euro, intended for European institutional investors.
During the first half of the year, within the multi-originator programme guaranteed by ISP OBG, the 11th series matured for an amount of 1.375 billion euro and the 12th series maturing in August 2018 was redeemed in advance for an amount of 2.154 billion euro, for a total of 3.529 billion euro. In March, the 25th and 26th series of floating-rate securities were issued for a total of 3.9 billion euro with a duration of 7 and 10 years respectively. All the securities, which are listed on the Luxembourg Stock Exchange and rated A High by DBRS, were subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 11th series was partially redeemed for an amount of 600 million euro, bringing the nominal amount to 500 million euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 23rd series was issued in February for an amount of 2 billion euro. This is a floating-rate security with a duration of 12 years, listed on the Luxembourg Stock Exchange, rated Aa2 by Moody’s, subscribed by the Parent Company and eligible with the Eurosystem.
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 June 2018, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was about 14.4 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.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
30.06.2018	7,387	1,508	521	9,416
30.06.2017	6,372	1,663	538	8,573
30.06.2017 Aggregate	6,676	1,663	538	8,877
% change (a)	10.7	-9.3	-3.2	6.1
Loans to customers				
30.06.2018	329,185	55,474	15,200	399,859
01.01.2018	335,212	50,809	13,518	399,539
% change (b)	-1.8	9.2	12.4	0.1
Direct deposits from banking business				
30.06.2018	362,703	59,076	9,197	430,976
01.01.2018	354,297	61,210	8,231	423,738
% change (b)	2.4	-3.5	11.7	1.7

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

(a) The change expresses the ratio between 30.06.2018 and 30.06.2017 Aggregate.

(b) The change expresses the ratio between 30.06.2018 and 1.1.2018 where not specified otherwise.

With regard to subdivision by geographical areas, the activities of the Intesa Sanpaolo Group continued to be concentrated primarily in the Italian market. Italy accounted for 78% of revenues, 82% of loans to customers and 84% of direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation and in the Mediterranean area (Egypt).
In terms of operating performance in the first half of 2018, loans to customers increased in Europe and the rest of the world and declined slightly in Italy, whilst direct bank deposits grew in Italy and the rest of the world but fell in Europe. Finally, operating income increased in Italy but decreased internationally.

Risk management

MAIN RISKS AND UNCERTAINTIES

The macroeconomic scenario 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 June 2018, both regulatory indicators LCR and NSFR, also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of June, the Central Banks eligible liquidity reserves came to 163 billion euro (171 billion euro at the end of December 2017), of which 79 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017).
The loan to deposit ratio at the end of June 2018, calculated as the ratio of loans to customers to direct deposits from banking business, is 93%.
In terms of funding, the widespread branch network remains a stable, reliable source: 74% of direct deposits from banking business come from retail operations (318 billion euro). In addition, 2.5 billion USD of unsecured senior bonds, 46.6 billion Yen of unsecured senior bonds, 1.25 billion euro of unsecured senior bonds and 1 billion euro of covered bonds were placed during the half year.
With regard to the targeted refinancing operation TLTRO II, at the end of June 2018, the Group’s participation amounted to 61 billion euro.
The Intesa Sanpaolo Group's leverage ratio was 6.2% as at 30 June 2018.
The capital base also remains high. Own funds, risk weighted assets and the capital ratios at 30 June 2018 are 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 have 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 the first half, Own Funds – taking account of the transitional treatment adopted to mitigate the impact of IFRS 9 – came to 48,337 million euro, against risk-weighted assets of 282,383 million euro, which primarily reflected credit and counterparty risk and, to a lesser extent, operational and market risk.
The Total Capital Ratio stood at 17.1%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.6%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 12.8%.
Having met the regulatory requirements for its inclusion pursuant to article 26(2) of the CRR, the Common Equity Tier 1 Capital as at 30 June 2018 took account of the figure of 15% of the net income for the period (net of foreseeable costs), in consideration of the payout ratio established for 2018 in the dividend policy of the 2018-2021 Business Plan.
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.
In relation to market risk, the Group’s average risk profile during the first six months of 2018 was approximately 55 million euro, compared to an average amount of approximately 78 million euro in the same period of 2017. The trend in the Group’s VaR in the first six months - mainly determined by Banca IMI - is described in greater detail later in this chapter.
The macroeconomic environment and the 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.
With regard to performing loans to customers, the “collective” adjustments, equal to 2,160 million euro, provide a coverage ratio of 0.6%, which is sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.
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 (67.1%) and unlikely to pay positions (35.2%).
Constant attention has been paid to the valuation of financial items. The majority of the financial assets are measured at fair value or are represented by hedging derivatives.
Excluding the insurance segment whose financial assets are almost all measured using level 1 inputs, the fair value measurement of the remaining financial assets measured at fair value through profit and loss was carried out as follows: around 61% using level 1 inputs, around 31% using level 2 inputs and only around 8% using level 3 inputs.
Investment levels in structured credit products and hedge funds remained low. The structured credit products generated a positive contribution of 7 million euro during the period, whereas the hedge funds generated a loss of 6 million euro over the six months, as described in more detail in the specific paragraphs of this chapter.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly delicate. No problematic issues requiring the remeasurement of the recoverable values of intangible assets and goodwill were identified during the period. In particular, with regard to goodwill, no events occurred that could lead to the conclusion that the forecast cash flows of the 2018-2021 Business Plan, used for the impairment test as at 31 December 2017, were no longer relevant, also considering the short time period that has elapsed since the analyses carried out at that time. In addition, the analyses conducted showed no significant changes to the main parameters and macroeconomic aggregates which could have an impact on the Group's expected cash flows and on the discounting rates thereof based on the models used to verify the carrying amount of the intangible asset in the financial statements. Indeed, even though the cash flow discounting rate for the explicit forecast horizon rose slightly, it did not exceed the limits identified by the sensitivity analyses carried out during the impairment testing as at 31 December 2017,
On the other hand, for the intangible assets with finite useful lives, no critical factors were considered to have arisen regarding the stability of the intangible value, thanks to both the increase in insurance reserves and in volumes of assets under management (AUM).

THE BASIC PRINCIPLES OF RISK MANAGEMENT

The policies relating to risk taking and the processes for the management of the risk that the Group is or could be exposed to are defined by Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.
The Corporate Bodies also benefit from the action of some Management Committees on risk management. These Committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of corporate control functions, and in particular the risk control function.

Without prejudice to the powers of the corporate bodies, the Chief Risk Officer is responsible for: (i) governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved; (ii) setting the Group’s risk management guidelines and policies in accordance with the company's strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments; (iv) ensuring the 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 performs a guidance and coordination role with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.
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 the Group might incur over a 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. The assessment of capital is included in business reporting and is submitted quarterly to the Steering 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 regard to credit risks, there have been no changes with respect to the situation as at 31 December 2017, except for the extension in June 2018 of the Group’s Banks and Public Sector Entities and Corporate internal models to the acquired portfolio of Banca Nuova.

The development and application of IRB systems for the other segments and the extension of the scope of companies is proceeding according to the Group’s Basel 3 roll-out plan.

The situation as at 30 June 2018 is shown in the following table:

<table>
<tr><th>Company</th><th>Corporate
FIRB</th><th>Corporate
AIRB LGD</th><th>Corporate
EAD</th><th>Retail Mortgage
IRB LGD</th><th>SME Retail
IRB LGD</th><th>Banks and Public Entities
IRB</th><th>Banking Book Equity
IRB</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="6">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Sep - 2017</td><td rowspan="7">Jun - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="7">Jun - 2017</td><td rowspan="7">Jun - 2017</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio di Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td></tr>
<tr><td>Mediocredito Italiano</td><td>Dec - 2008</td><td>Dec - 2010</td><td>Sep - 2017</td><td>n.a.</td><td>Dec - 2012</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Sep - 2017</td><td>n.a.</td><td>Dec - 2013</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>IMI Investimenti</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>Jun - 2017</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>n.a.</td><td>Jun - 2012</td><td>Jun - 2014</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Banka Intesa Sanpaolo d.d.</td><td>Mar - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Intesa Sanpaolo Bank Luxembourg</td><td>n.a.</td><td>Jun - 2017</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
</table>

With regard to counterparty risk on OTC derivatives and SFTs, the Group has improved the measurement and monitoring, by refining the instruments required under Basel 3. For reporting purposes, Intesa Sanpaolo, Banca IMI and the companies of the Banca dei Territori Division have been authorised to use internal models (both for the determination of Exposure at default for replacement risk and for the CVA capital charge for migration risk).

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.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 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 Intesa Sanpaolo Group's strategies, powers and rules for credit granting and management 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 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 regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public Sector Entities and Banks). 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 consistent 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.

There were no changes relating to the authorisations for the models to be applied to the specific portfolios with respect to 31 December 2017, except for the abovementioned extension, in June 2018, of the Group's Banks and Public Sector Entities and Corporate internal models to the portfolio acquired from Banca Nuova.

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, does not deem likely 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)

Captions	30.06.2018			01.01.2018			Change
	Gross exposure	*Total adjustments*	*Net exposure*	*Gross exposure*	*Total adjustments*	*Net exposure*	*Net exposure*
Bad loans	22,851	-15,330	7,521	34,192	-23,630	10,562	-3,041
Unlikely to pay	15,945	-5,611	10,334	17,390	-5,798	11,592	-1,258
Past due loans	678	-155	523	475	-101	374	149
Non-Performing Loans	**39,474**	**-21,096**	**18,378**	**52,057**	**-29,529**	**22,528**	**-4,150**
Non-performing loans in Stage 3 (subject to impairment)	*39,378*	*-21,068*	*18,310*	*51,939*	*-29,483*	*22,456*	*-4,146*
Non-performing loans designated at fair value through profit or loss	*96*	*-28*	*68*	*118*	*-46*	*72*	*-4*
Performing loans	**378,273**	**-2,160**	**376,113**	**373,569**	**-2,417**	**371,152**	**4,961**
Stage 2	*48,512*	*-1,350*	*47,162*	*51,684*	*-1,573*	*50,111*	*-2,949*
Stage 1	*329,268*	*-810*	*328,458*	*321,570*	*-844*	*320,726*	*7,732*
Performing loans designated at fair value through profit or loss	*493*	*-*	*493*	*315*	*-*	*315*	*178*
Performing loans represented by securities	**5,346**	**-9**	**5,337**	**5,913**	**-54**	**5,859**	**-522**
Stage 2	*386*	*-6*	*380*	*662*	*-23*	*639*	*-259*
Stage 1	*4,960*	*-3*	*4,957*	*5,251*	*-31*	*5,220*	*-263*
Loans held for trading	***31***	***-***	***31***	***-***	***-***	***-***	***31***
Total loans to customers	**423,124**	**-23,265**	**399,859**	**431,539**	**-32,000**	**399,539**	**320**
of which forborne performing	**7,902**	**-340**	**7,562**	**7,954**	**-328**	**7,626**	**-64**
of which forborne non-performing	**10,350**	**-4,073**	**6,277**	**11,134**	**-4,430**	**6,704**	**-427**
Loans to customers classified as discontinued operations (*)	**10,902**	**-7,637**	**3,265**	**314**	**-35**	**279**	**2,986**

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

(*) As at 30 June 2018, this caption included the portfolio of bad loans to be sold to Intrum (which has decreased since date of the agreement, mainly due to collections received in the meantime, to a gross exposure amount of 10,330 million euro, total adjustments of 7,559 million euro and a net exposure of 2,771 million euro) and high risk loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides for their transfer to the Banks in compulsory liquidation (gross exposures of 572 million euro, total adjustments of 78 million euro, net exposure of 494 million euro). As at 31 December 2017, the caption included the high risk loans; the figures for the portfolio of bad loans to be sold to Intrum have not been restated.

As at 30 June 2018 the Group's net non-performing loans – which at the end of the first half no longer included the bad loans sold to Intrum, recognised under the caption non-current assets held for sale and discontinued operations – amounted to 18.4 billion euro, a reduction of 18.4% since the start of the year, continuing the progressive decrease already seen during the previous year. Non-performing assets decreased as a percentage of total net loans to customers, down to 4.6%.
In further detail, bad loans came to 7.5 billion euro, net of adjustments and positions reclassified as discontinued operations, at the end of June 2018, down (-28.8%) compared with the beginning of the year, and represented 1.9% of total loans. During the same period, the coverage ratio stood at 67.1%. Loans included in the unlikely to pay category amounted to 10.3 billion euro, down by 10.9%, accounting for 2.6% of total loans to customers, with a coverage ratio of 35.2%. Past due loans amounted to 523 million euro, up 39.8% since the beginning of the year, with a coverage ratio of 22.9%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 6.3 billion euro, with a coverage ratio of 39.4%, while forborne exposures in the performing loans category amounted to 7.6 billion euro.
Overall, the coverage ratio of performing loans was stable at 0.6%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

Counterparty risk

Counterparty risk is a particular type of credit risk, relating to OTC derivatives and SFTs (Securities Financing Transactions, i.e. repurchase agreements and security lending), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

The Group uses techniques to mitigate counterparty risk through bilateral netting arrangements which enable the offsetting of credit and debit positions in the event of counterparty default.

This is achieved by entering into ISDA and ISMA/PSA agreements, for OTC derivatives, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the bank establishes collateral arrangements, where possible, usually with daily margining, to hedge bilateral OTC derivatives (CSAs) and SFTs (GMRAs and GMSLAs).

For reporting purposes, Intesa Sanpaolo, Banca IMI and the banks of the Banca dei Territori Division have obtained authorisation from the Supervisory Authority to use the internal models approach to calculate the counterparty risk requirement for OTC derivatives and SFTs.
These advanced risk measurement methods are also used at operational level to perform the "use test": the Financial and Market Risks Head Office Department calculates, validates and sends the metrics to the credit monitoring systems on a daily basis to measure the use of the credit lines for OTC derivatives and SFTs.
The Group's banks which are not included in the roll-out plan for the internal models nevertheless apply the advanced metrics in a simplified manner at operational level.

To perform the use test of the model, the Group has implemented the processes required by the "Basel 3" regulations.
In particular, stress tests are carried out to measure the impacts on risk measures under extreme market conditions. Backtesting is also conducted to ensure the robustness of the model.
In addition, to complete the risk analysis process, the following corporate processes have been activated:
– definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
– definition and monitoring of management limits;
– contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for margined OTC derivatives and SFTs;
– periodic reporting to management of the measures calculated using the current and future internal exposure model, analysis of portfolio composition by type of counterparty/division/segment/country, underlying type per SFT capital requirement, level of use of management limits, and results of stress tests and Wrong-Way Risk analyses.

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 requirement 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 units 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.

While using the historical simulation approach, the latter point is a discriminating condition in the selection of the holding period. Actually, 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 April 2008 to 30 March 2009 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.

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

During the second quarter of 2018, the market risks generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the first quarter of 2018. The average VaR for the period totalled 61.9 million euro compared to 48.1 million euro of March 2018.

(millions of euro)

	2018				2017			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	11.8	6.7	20.9	7.8	8.0	8.9	11.6	11.5
Banca IMI	50.1	28.0	85.8	40.3	50.5	52.6	58.4	73.7
Total	**61.9**	**34.8**	**105.3**	**48.1**	**58.6**	**61.5**	**70.0**	**85.3**

(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.

However, compared to last year, the risk measures for the first half have decreased: for 2018 an average group VaR of 55 million was recorded whilst in 2017 the average amounted to approximately 78 million euro.

(millions of euro)

	2018			2017		
	average 1st half	minimum 1st half	maximum 1st half	average 1st half	minimum 1st half	maximum 1st half
Intesa Sanpaolo	9.8	6.7	20.9	11.5	9.2	12.5
Banca IMI	45.2	24.6	85.8	66.2	52.9	93.2
Total	**55.0**	**33.7**	**105.3**	**77.8**	**62.2**	**104.8**

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first six 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 risk profile in the second quarter of 2018 with regard to the various factors shows the prevalence of the risk generated by credit spread, which produced 66% of total operational VaR; for Banca IMI too credit spread risk was the most significant, representing 76% of total operational VaR.

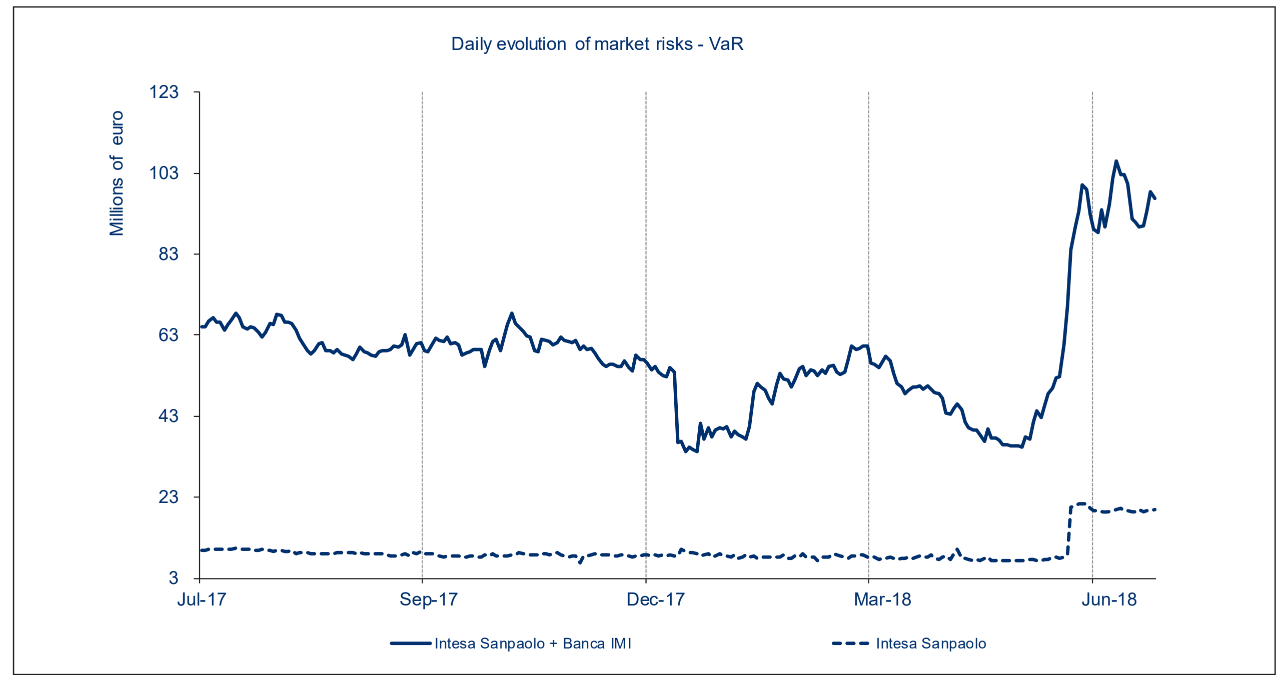
Contribution of risk factors to total VaR[(a)]

2nd quarter 2018	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	3%	4%	16%	66%	10%	1%	0%
Banca IMI	4%	0%	13%	76%	0%	6%	1%
Total	**5%**	**1%**	**13%**	**74%**	**1%**	**5%**	**1%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall VaR, calculated as the average of daily estimates in the second quarter of 2018, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

The trend in VaR is mainly attributable to Banca IMI. During the first half of 2018 (May), the risk measures rose and reflected the increase in the volatility of the financial markets, particularly in the Italian government sector. In June, the trend was also

influenced by changes in the portfolio. The Parent Company also recorded an increase in risks, albeit to a lesser extent, and this was also due to the increase in volatility of the credit spread risk factor (indices). The VaR limits were sufficient at Group level.



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, foreign exchange rates and commodity prices at the end of June is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-1	7	-71	62	295	-289	35	-15	2	-4

In particular:

– on stock market positions, a 15% decrease in stock prices with a resulting 25% increase in volatility would have led to a loss of approximately one million euro;
– on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 71 million euro, whereas a scenario with a reduction in interest rates would have led to potential gains;
– on exposures sensitive to credit spread fluctuations, a 25-basis-point widening in spreads would have led to a 289 million euro loss;
– on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 15 million euro would be recorded;
– lastly, for commodity exposures potential losses would be recorded for an amount equal to 4 million euro in case of a 20% increase in prices of commodities (accompanied by a reduction in the price of gold of 15%).

Backtesting

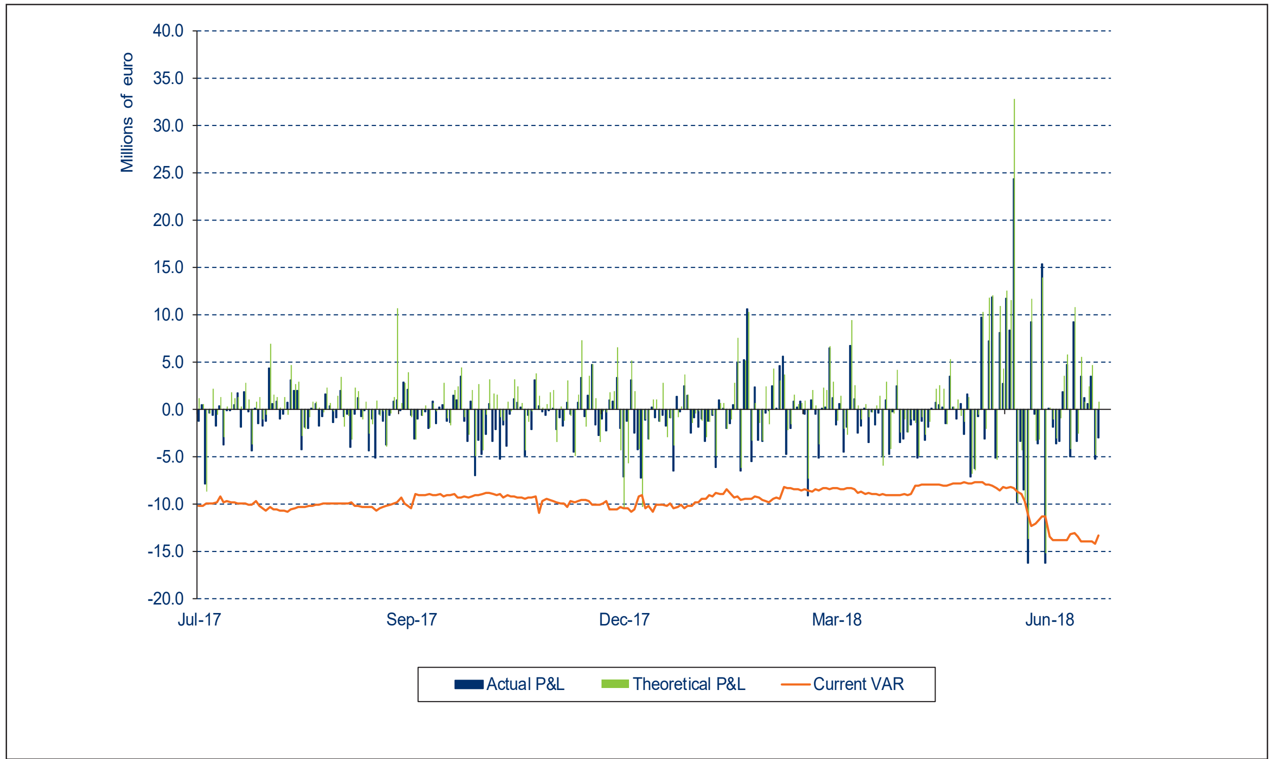
The soundness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

– 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. The backtesting used by Intesa Sanpaolo involves both the P&L series actually 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.

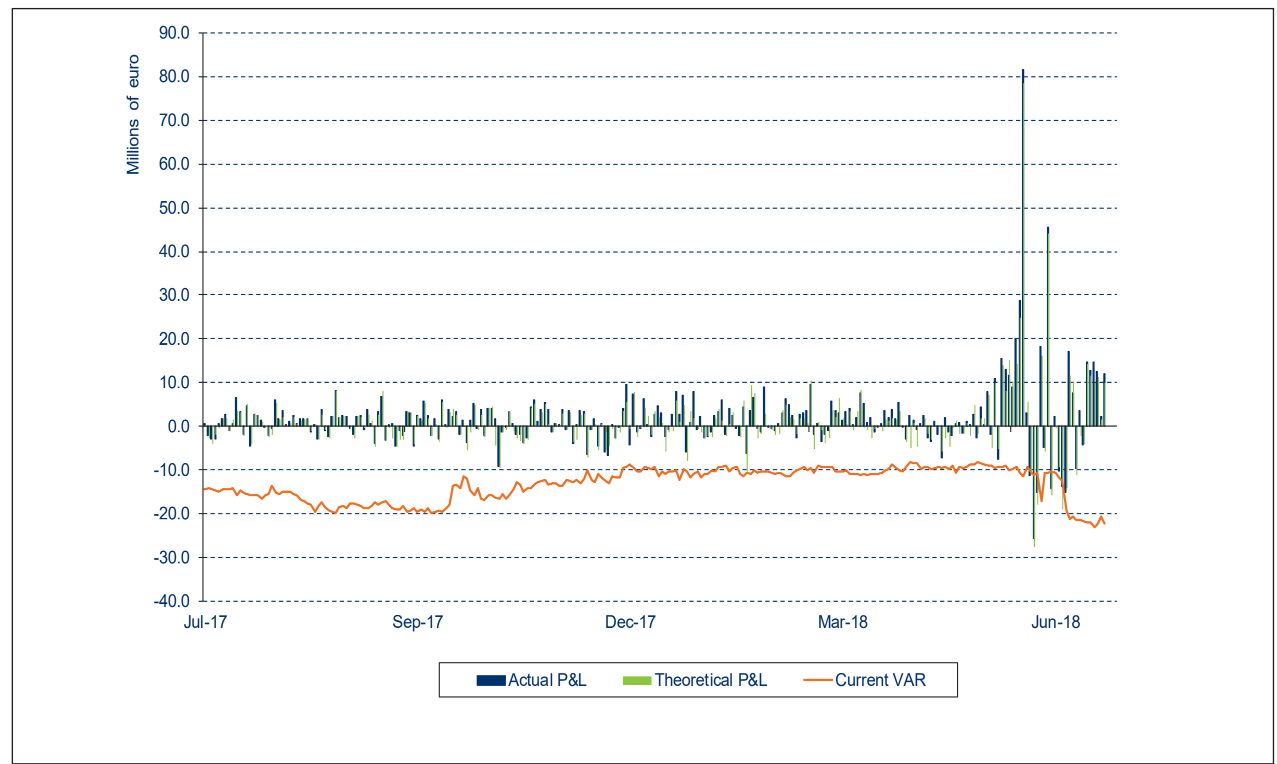
Backtesting in Intesa Sanpaolo

Over the last twelve months there have been four backtesting exceptions. The breaches were caused by the credit component of the portfolio, which was particularly affected by the volatility in the second half of May 2018. The volatility was particularly high for buy protection positions on credit indices.



Backtesting in Banca IMI

The credit spread volatility was very high in the second quarter of 2018. This volatility led to five backtesting breaches for both theoretical and actual P&L. The portfolio was particularly sensitive to the performance of the financial sector and to a lesser extent to the government sector.



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 internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:
- *repricing risk*: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- *yield curve risk*: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- *basis risk*: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- *option risk*: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

The following metrics are used to measure the interest rate risk generated by the banking book:
1. shift sensitivity of economic value (ΔEVE);
2. net interest income:
   - shift sensitivity of net interest income (ΔNII);
   - dynamic simulation of net interest income (NII);
3. Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:
- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.

The cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP;
To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.
In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.
The shift sensitivity of the net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.
This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from 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.
To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.
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).
Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.
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 stipulated 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 and liabilities (microhedging), 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 macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted 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 variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Department of the Parent Company is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.
During 2018, no hedging activities have been performed to cover the price risk of the banking book.
In the first six months of 2018, interest rate risk generated by the Intesa Sanpaolo Group’s banking book, measured through shift sensitivity analysis, recorded an average value of 1,648 million euro, settling at 1,618 million euro at the end of June 2018, almost entirely concentrated on the euro; this figure compares with 1,615 million euro at the end of 2017.
The sensitivity of net interest income – assuming a +50 and -50 basis point change in interest rates – amounted to 868 million euro and -929 million euro respectively, at the end of June 2018 (794 million euro and -872 million euro at the end of 2017).
Interest rate risk, measured in terms of VaR, recorded an average of 136 million euro in the first six months of 2018 (153 million euro at the end of 2017), with a minimum value of 123 million euro and a maximum value of 147 million euro; the latter figure coincides with the value at the end of June 2018. Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level of 59 million euro in the first six months of 2018 (64 million euro at the end of 2017), with a minimum value of 52 million euro and a maximum value of 70 million euro; the latter figure coincides with the value at the end of June 2018.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above listed assets recorded in the HTCS (former AFS) category shows a sensitivity to a 10% negative shock equal to 53.4 million euro at the end of June 2018.

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).
Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo.
These guidelines contain the latest regulatory provisions on liquidity risk and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of such risk, thereby preventing the emergence of crisis situations.
In particular, from an organisational standpoint, a detailed definition is prepared of the tasks assigned to the Board of Directors 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 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.
The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.
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 indicators are 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 - LCR) respectively, in addition to a system of early warning indicators for maturities from 3 months to one year.
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 LCR (for which the minimum regulatory threshold is 100% after 1 January 2018) 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 on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario, as defined by Delegated Regulation (EU) 2015/61.
The aim of Intesa Sanpaolo Group's structural Liquidity indicators is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: the 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. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU). Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).
The Guidelines for Group Liquidity Risk Management also envisage the time extension of the stress scenario for the LCR indicator provided by the 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. For this purpose, the internal management guidelines also envisage an alert threshold (Stressed soft ratio) for 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. Within this framework, the Treasury Head Office Department and the Active Value Management Head Office Department of the Parent Company were officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of action that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.
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.
In the first six months of the year, the Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Guidelines: both indicators, LCR and NSFR, were fully met and were already above the regulatory requirements. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, amounted to an

average of 171%. As at 30 June 2018, the eligible liquidity reserves for the Central Banks, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 163 billion euro (171 billion euro at the end of December 2017), of which 79 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). The HQLA component represented 63% of the reserves in own portfolio and 88% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.
The stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the Intesa Sanpaolo 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 various 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 investments and transactions in derivatives with customers.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES, PRUDENT VALUATION AND INDEPENDENT PRICE VERIFICATION

Fair value of financial instruments

The methodologies for the fair value measurement of financial instruments, as well as any adjustments attributable to uncertainties in valuation, are governed by the Fair Value Policy of Intesa Sanpaolo Group and are described in detail in the 2017 Annual Report, to which reference is made for more information.

This chapter provides a summary of the most significant changes during the first half of 2018.
In particular, the Group has aligned its Fair Value Policy to IFRS 9, introducing a methodology for the fair valuation of loans measured at fair value required by the business model classification or by the failure of the Solely Payment of Principal and Interest (SPPI) Test. The Fair Value Policy also established rules for the quantitative methods supporting the SPPI Test (Benchmark Cash Flow Test and Credit Risk Assessment) for the instruments that require them.

Prudent value of financial instruments

Following the introduction of IFRS 9, the Group has also updated its Prudent Valuation Policy, which governs the measurement of the prudent value of the financial instruments and specifically the calculation of the Additional Value Adjustments (AVAs), as described in detail in the 2017 Annual Report, to which reference is made for more information.
With respect to 31 December 2017, the calculation rules for the Additional Value Adjustments (AVAs) have been extended to measure the prudent value of the loans at fair value and the Prudential filters have been updated after the end of the transitional period established by the Bank of Italy with the issue of Circular 285.

Independent price verification (IPV)

In the first half of 2018, the Group formalised its Independent Price Verification Process through its IPV Policy.
According to the provisions of Regulation EU 575/2013, Article 4, par. 1.70 and Article 105, par. 8, the IPV process consists of the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market. The IPV process is integrated with the risk management processes, in compliance with the regulations on the measurement of financial instruments (IFRS) and the measurement of risk (CRR).
The IPV Policy formalises in a single framework at Group level a series of already existing controls that have been developed over time.

Fair value hierarchy

Assets and liabilities designated at fair value on a recurring basis: fair value by level *- Excluding insurance companies*

(millions of euro)

Financial assets / liabilities at fair value	30.06.2018			01.01.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	13,111	26,952	2,688	12,723	27,275	2,561
a) Financial assets held for trading	*12,822*	*26,462*	*624*	*12,125*	*26,778*	*748*
of which: Equities	*709*	*-*	*1*	*625*	*-*	*1*
of which: quotas of UCI	*709*	*2*	*63*	*983*	*3*	*93*
b) Financial assets designated at fair value	-	144	65	-	150	64
c) Other financial assets mandatorily designated at fair value	289	346	1,999	598	347	1,749
of which: Equities	*3*	*92*	*190*	*24*	*186*	*187*
of which: quotas of UCI	*267*	*10*	*1,351*	*264*	*8*	*1,060*
2. Financial assets designated at fair value through other comprehensive income	55,950	5,168	722	53,093	6,079	688
of which: Equities	*536*	*2,117*	*457*	*519*	*2,208*	*435*
3. Hedging derivatives	-	3,464	9	-	4,199	14
4. Property and equipment	-	-	5,805	-	-	5,890
5. Intangible assets	-	-	-	-	-	-
Total	**69,061**	**35,584**	**9,224**	**65,816**	**37,553**	**9,153**
1. Financial liabilities held for trading	13,860	25,532	90	15,556	25,768	132
2. Financial liabilities designated at fair value	-	4	-	-	3	-
3. Hedging derivatives	-	7,082	4	-	7,246	5
Total	**13,860**	**32,618**	**94**	**15,556**	**33,017**	**137**

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

Excluding insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 8.1%.
As far as liabilities are concerned, level 3 instruments account for 0.2% of total liabilities.
Over 60% of financial assets designated at fair value (excluding the insurance segment) are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities designated at level 3 as detailed below, please note that the following transfers were made during the first half of 2018:

- from level 1 to level 2:
  financial assets held for trading for 96 million euro (book value as at 30 June 2018);
  financial assets designated at fair value through other comprehensive income for 56 million euro (book value as at 30 June 2018);
  financial liabilities held for trading for 207 million euro (book value as at 30 June 2018);
- from level 2 to level 1:
  financial assets held for trading for 67 million euro (book value as at 30 June 2018);
  financial liabilities held for trading for 72 million euro (book value as at 30 June 2018).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of the presence of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

Assets and liabilities designated at fair value on a recurring basis: fair value by level *- Insurance companies*

(millions of euro)

Financial assets / liabilities at fair value	**30.06.2018**			**31.12.2017**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	300	16	49	428	13	49
of which: Equities	*-*	*-*	*-*	*-*	*-*	*-*
of which: quotas of UCI	*156*	*-*	*49*	*205*	*-*	*49*
2. Financial assets designated at fair value through profit or loss	76,347	140	450	74,221	157	337
of which: Equities	*1,608*	*-*	*-*	*1,606*	*-*	*-*
of which: quotas of UCI	*70,516*	*-*	*19*	*68,628*	*-*	*19*
3. Financial assets available for sale	72,976	735	1,216	75,571	786	1,016
of which: Equities	*1,001*	*-*	*-*	*1,608*	*-*	*-*
of which: quotas of UCI	*8,778*	*17*	*1,112*	*8,578*	*61*	*818*
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	9	-	-	9
6. Intangible assets	-	-	-	-	-	-
Total	**149,623**	**891**	**1,724**	**150,220**	**956**	**1,411**
1. Financial liabilities held for trading	-	47	-	-	67	-
2. Financial liabilities designated at fair value through profit or loss	-	45,698	24,592	-	43,210	24,956
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**45,745**	**24,592**	**-**	**43,277**	**24,956**

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

Having regard to insurance companies, as shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 1.1%.
As far as liabilities are concerned, level 3 instruments account for 35% of total liabilities of the segment.
Over 98% of financial assets designated at fair value in the insurance segment are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities in the insurance segment designated at level 3 as detailed below, please note that the following transfers were made during the first half of 2018:

- from level 1 to level 2:
  financial assets designated at fair value through profit and loss for 8 million euro (book value as at 30 June 2018);
  financial assets available for sale for 90 million euro (book value as at 30 June 2018);
- from level 2 to level 1:
  financial assets designated at fair value through profit and loss for 3 million euro (book value as at 30 June 2018);
  financial assets available for sale for 61 million euro (book value as at 30 June 2018).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of the presence of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

Half-yearly changes in assets designated at fair value on a recurring basis (level 3) *- Excluding insurance companies*

(millions of euro)

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily designated at fair value*				
1. Initial amount	**2,561**	**748**	**64**	**1,749**	**688**	**14**	**5,890**	**-**
2. Increases	**1,162**	**647**	**1**	**514**	**135**	**-**	**3**	**-**
2.1 Purchases	636	501	-	135	114	-	-	-
2.2 Gains recognised in:	52	20	1	31	6	-	3	-
2.2.1 Income statement	52	20	1	31	-	-	-	-
- of which capital gains	*47*	*17*	*1*	*29*	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	6	-	3	-
2.3 Transfers from other levels	33	23	-	10	5	-	-	-
2.4 Other increases	441	103	-	338	10	-	-	-
3. Decreases	**-1,035**	**-771**	**-**	**-264**	**-101**	**-5**	**-88**	**-**
3.1 Sales	-838	-689	-	-149	-58	-4	-	-
3.2 Reimbursements	-45	-23	-	-22	-26	-	-	-
3.3 Losses recognized in:	-61	-31	-	-30	-5	-1	-52	-
3.3.1 Income statement	-61	-31	-	-30	-	-1	-52	-
- of which capital losses	*-57*	*-27*	-	*-30*	-	*-1*	-	-
3.3.2 Shareholders' equity	-	X	X	X	-5	-	-	-
3.4 Transfers to other levels	-27	-19	-	-8	-8	-	-	-
3.5 Other decreases	-64	-9	-	-55	-4	-	-36	-
4. Final amount	**2,688**	**624**	**65**	**1,999**	**722**	**9**	**5,805**	**-**

Half-yearly changes in assets designated at fair value on a recurring basis (level 3) *- Insurance companies*

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**49**	**337**	**1,016**	**-**	**9**	**-**
2. Increases	**-**	**120**	**534**	**-**	**-**	**-**
2.1 Purchases	-	-	193	-	-	-
2.2 Gains recognised in:	-	-	26	-	-	-
2.2.1 Income statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	26	-	-	-
2.3 Transfers from other levels	-	-	101	-	-	-
2.4 Other increases	-	120	214	-	-	-
3. Decreases	**-**	**-7**	**-334**	**-**	**-**	**-**
3.1 Sales	-	-	-36	-	-	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-20	-	-	-
3.3.1 Income statement	-	-	-1	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	-19	-	-	-
3.4 Transfers to other levels	-	-	-90	-	-	-
3.5 Other decreases	-	-7	-188	-	-	-
4. Final amount	**49**	**450**	**1,216**	**-**	**9**	**-**

Half-yearly changes in liabilities designated at fair value on a recurring basis (level 3)- *Excluding insurance companies*

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**132**	**-**	**5**
2. Increases	**4**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	2	-	-
2.2.1 Income statement	2	-	-
- of which capital losses	*5*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	2	-	-
2.4 Other increases	-	-	-
3. Decreases	**-46**	**-**	**-1**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-16	-	-1
3.3.1 Income statement	-16	-	-1
- of which capital gains	*-5*	-	*-1*
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-23	-	-
3.5 Other decreases	-7	-	-
4. Final amount	**90**	**-**	**4**

Half-yearly changes in liabilities designated at fair value on a recurring basis (level 3) - *Insurance companies*

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Hedging derivatives
1. Initial amount	**-**	**24,956**	**-**
2. Increases	**-**	**1,496**	**-**
2.1 Issues	-	1,496	-
2.2 Losses recognised in:	-	-	-
2.2.1 Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**-**	**-1,860**	**-**
3.1 Reimbursements	-	-1,316	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-	-	-
3.3.1 Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2 Shareholders' equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-544	-
4. Final amount	**-**	**24,592**	**-**

Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis - *Excluding insurance companies*

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2018		31.12.2017	
	Book value	Fair value	Book value	Fair value
1. Financial assets measured at amortised cost	481,214	486,886	483,959	486,548
2. Investment property	1	1	-	-
3. Non-current assets held for sale and discontinued operations	3,609	3,609	627	556
Total	**484,824**	**490,496**	**484,586**	**487,104**
1. Financial liabilities measured at amortised cost	522,460	521,618	516,360	518,978
2. Liabilities associated with non-current assets	261	261	264	264
Total	**522,721**	**521,879**	**516,624**	**519,242**

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

Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis - *Insurance companies*

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2018		31.12.2017	
	Book value	Fair value	Book value	Fair value
1. Investments held to maturity	-	-	-	-
2. Due from banks	651	651	405	406
3. Loans to customers	31	31	18	18
4. Investment property	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-
Total	**682**	**682**	**423**	**424**
1. Due to banks	8	8	1	1
2. Due to customers	120	120	57	58
3. Securities issued	1,285	1,285	1,254	1,254
4. Liabilities associated with non-current assets	-	-	-	-
Total	**1,413**	**1,413**	**1,312**	**1,313**

Sensitivity analysis for financial assets and liabilities measured at level 3

As required by IFRS 13, for the financial assets and liabilities measured at level 3 the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
Securities at FVTPL and Securities at FVTOCI	Credit spread	-239	1 bp
Securities at FVTPL and Securities at FVTOCI	Correlation	-	1%
Securities at FVTPL and Securities at FVTOCI	CPR	-23	1%
Securities at FVTPL and Securities at FVTOCI	Recovery rate	-66	-1%
OTC Derivatives - Interest Rates	Correlation for spread options between swap rates	-197	0.10
OTC Derivatives - Equity	Correlation between underlying equity baskets	-86	0.10
OTC Derivatives - Equity	Historical volatility	-454	10%
OTC Derivatives - Equity CPPI	Historical correlation	-145	10%
OTC Derivatives - Interest Rate	Volatility for JPY swaption	-61	10%

Information on "Day one profit/loss"

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which allow for partial discretion by the valuator of the instrument, and therefore have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit -DOP).

This difference shall be recognised in the income statement only when it arises from changes to the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.

When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in whole in the income statement. Similarly, in the event of "on-the-book" transactions falling under the Bank's investing activities, the Day-One-Profits earned on level 3 transactions (including in the above "on-the-book" management) are taken to the income statement when the Group entity (the investment bank) carries out transactions which substantially eliminate the risks of the

level 3 instrument which generated the DOP.
The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.
The following table shows the changes in the DOP amount deferred in the balance sheet, indicating the portion taken to the income statement.

(millions of euro)

1. Initial amount	**1**
2. Increases	**-**
2.1 New transactions	-
3. Decreases	**-**
3.1 Releases to the income statement	-
4. Final amount	**1**

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 1,938 million euro as at 30 June 2018 with respect to funded and unfunded ABSs/CDOs, compared to 2,279 million euro as at 31 December 2017. There were no exposures in structured packages.
The strategy regarding the portfolio in question in 2018 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 exposure to funded and unfunded ABSs/CDOs measured at fair value went from 2,034 million euro in December 2017 to 1,731 million euro in June 2018, with decrease attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs by the Parent Company, only partially offset by investments in ABSs by Banca IMI (part of which were classified to the portfolio of financial assets measured at fair value through other comprehensive income) and in European ABSs purchased by the Parent Company and classified to the trading book.
Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.
The exposure represented by securities classified in the portfolio of assets measured at amortised cost showed a net decrease (from 245 million euro in December 2017 to 207 million euro in June 2018) due to greater investments made by Banca IMI, offset by sales by the Parent Company, and by reclassifications to the accounting categories measured at fair value through profit or loss, upon First Time Adoption (FTA) of IFRS9, due to the failure to pass the SPPI Test on the contractual cash flow characteristics.
From the perspective of the income statement, a profit of +7 million euro was posted for the first half of 2018, against the +28 million euro for 2017.
As at 30 June 2018, the profits (losses) on trading – caption 80 of the income statement – for the exposures in funded and unfunded ABSs came to nil overall (+17 million euro in 2017) and was also nil for the positions in multi-sector CDOs (+4 million euro in 2017).
The profits (losses) from financial assets mandatorily measured at fair value was +4 million euro and related to the funded and unfunded ABS positions in the Parent Company's loan portfolio, reclassified into the new accounting category upon First Time Adoption (FTA) of IFRS 9.
The exposure to funded and unfunded ABSs in securities classified by the subsidiary Banca IMI in the portfolio of assets measured at fair value through other comprehensive income recorded a net decrease in fair value of 2 million euro in 2018, recognised in the specific Shareholders' Equity Reserve (from a positive reserve at the end of December 2017 of +4 million euro to a reserve of +2 million euro in June 2018) and an impact of +1 million euro from sales made in the period (nil impact in 2017).
Securities classified in the portfolio of assets measured at amortised cost recorded a net gain of +2 million euro as at 30 June 2018 (nil impact in 2017) essentially related to valuation components.
With regard to the monoline and non-monoline packages, there were no positions in 2018 because they had been disposed of in 2017, generating a contribution of +7 million euro to the profits (losses) on trading – caption 80 of the income statement – as at 31 December 2017.

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 (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) are considered Special Purpose Entities.
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 2017 financial statements.
During the first half of 2018, within the multi-originator programme guaranteed by ISP OBG, the 11th series matured for an amount of 1.375 billion euro and the 12th series maturing in August 2018 was redeemed in advance for an amount of 2.154 billion euro, for a total of 3.529 billion euro.
In March, the 25th and 26th series of floating-rate securities were issued for a total of 3.9 billion euro with a duration of 7 and 10 years respectively.
All the securities, which are listed on the Luxembourg Stock Exchange and rated A High by DBRS, were subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 11th series was partially redeemed for an amount of 600 million euro, bringing the nominal amount to 500 million euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 23rd series was issued in February for an amount of 2 billion euro. This is a floating-rate security with a duration of 12 years, listed on the Luxembourg Stock Exchange, rated Aa2 by Moody's, subscribed by the Parent Company and eligible with the Eurosystem.

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

Since 2008 Intesa Sanpaolo has represented in this category 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. 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 June 2018, 116 transactions for a total amount granted of 3,193 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.
Moreover, it is noted that – as stated in the 2017 Annual Report and in the Interim Statement as at 31 March 2018 – in May 2017 the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The purpose of the new regulations is to strengthen company controls over "leveraged" transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.
The guidance covers, *inter alia*, the following issues with regard to leveraged transactions: definition, risk appetite and governance, syndication activities, policies and procedures for new deal approval, longer-term monitoring and management of longer-term transactions, secondary market activities and internal reporting requirements, while it does not explicitly regulate public disclosure.
In particular, the scope identified by the ECB is larger than the one currently surveyed by Intesa Sanpaolo in that it includes – in addition to exposures to parties whose majority of capital is held by one or more financial sponsors – also exposures in which the borrower's level of leverage, measured as the ratio of total debt to EBITDA, is greater than 4.
The guidance requires that Banks set up the instruments necessary to apply the new rules, and an internal audit report, describing how the expectations of the Regulator have been endorsed and implemented, must be sent to the specific Joint Supervisory Team of the ECB by November 2018.
Intesa Sanpaolo thus launched a specific project with the purpose of gradual alignment with the ECB guidance on leveraged transactions.

A breakdown of exposures by risk type, geographical area, level of subordination and economic sector is set out in the charts below.

Breakdown by type of risk

Final Take 96.9%
To be syndicated Italy 3.1%

Breakdown by subordination level

Senior 100%

Breakdown by geographical area

Italy 83.3%
Abroad 16.7%

Breakdown by economic sector

Telecommunication 8.2%
Services 6.7%
Financial 4.4%
Industrial 80.7%

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 30 June 2018 amounted to 214 million euro in the Trading Book and approximately 90 million euro in the Banking Book, compared to 263 million euro and 64 million euro respectively at the end of March and 416 million euro and 19 million euro in December 2017. The amounts allocated to the Banking Book are recognised under Other financial assets mandatorily measured at fair value and relate to recent investments made in funds that have medium/long-term investment strategies and redemption times that are longer than those of UCITS Funds (Undertakings for Collective Investment in Transferable Securities).

During 2018, the reduction of the Trading Book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure. In particular, the most significant redemptions in 2018 involved the MAP 1A Fund for 46 million euro, the MAP 17A Fund for 36 million euro, the MAP 4A Fund for almost 33 million euro, and the Charity Investment Fund for 13 million euro in the first quarter, and the MAP 19A for 40 million euro in the second quarter.

The result for the first half was a loss of 6 million euro, compared to a profit of 8 million euro recorded in the Profits (Losses) on trading in June 2017. This result mainly reflected the write-down of the Matrix Pve Map 6A fund by more than 5 million euro, due to particularly prudent policies (worst case scenario) used by the servicer to value the underlying assets and of the Harbinger Distressed Credit fund by almost 3 million euro, in relation to the write-down of the investment in Lingado.

As a whole, the current strategy of the portfolio is prudent, while waiting for any market opportunities to arise.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 June 2018, 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 6,792 million euro (7,011 million euro as at 31 December 2017). The notional value of these derivatives totalled 51,284 million euro (50,488 million euro as at 31 December 2017). In particular, the notional value of plain vanilla contracts was 48,137 million euro (46,764 million euro as at 31 December 2017), while that of structured contracts was 3,147 million euro (3,724 million euro as at 31 December 2017).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,755 million euro (4,901 million euro as at 31 December 2017), of which 479 million euro (480 million euro as at 31 December 2017) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,411 million euro as at 30 June 2018 (1,082 million euro as at 31 December 2017). The notional value of these derivatives totalled 24,769 million euro (22,846 million euro as at 31 December 2017). In particular, the notional value of plain vanilla contracts was 20,950 million euro (20,304 million euro as at 31 December 2017), while that of structured contracts was 3,819 million euro (2,542 million euro as at 31 December 2017).

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 June 2018, this led to a positive effect of 9 million euro being recorded under “Profits (Losses) on trading” in the income statement.
As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in Part A of the Notes to the consolidated financial statements. Please note that contracts made up of combinations of more 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 the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk 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 traditional standardised approach (TSA) and the basic indicator approach (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 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, Operational and Reputational 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 organisational units to be responsible for Operational Risk Management (structured collection of information relative to operational events, detection of critical issues and related mitigation actions, 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:

- estimate the exposure to potential future losses deriving from operational events (Scenario Analysis) and assess the level of control of the business environment (Business Environment Evaluation);
- analyse ICT risk exposure;
- create significant synergies with Cybersecurity and Business Continuity, which supervises the planning of operational processes, IT security and business continuity issues, with the 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 on 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.
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.

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 1,437 million euro as at 30 June 2018, down from 1,488 million euro as at 31 December 2017.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions have been made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

During the first half of 2018, there were no new significant disputes or changes with respect to the pending legal disputes indicated in the Notes to the 2017 Financial Statements, apart from that disclosed in the Interim Statement as at 31 March 2018.

Disputes connected with the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation - With regard to the risks connected with the possible outcomes for the Intesa Sanpaolo Group of the lawsuits relating to Banca Popolare di Vicenza and Veneto Banca (and/or their directors and top management), the following is noted:

a) based on the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo (sale contract of 26 June 2017 and Second Acknowledgement Agreement of 17 January 2018), two distinct categories of disputes can be identified (also relating to the subsidiaries of the former Venetian banks included in the sale):
   - the Previous Disputes, included among the liabilities of the Aggregate Set transferred to Intesa Sanpaolo, which include civil disputes relating to judgements already pending at 26 June 2017, with some exceptions, and in any case different from those included under the Excluded Disputes (see the point below);
   - the Excluded Disputes, which remain under the responsibility of the Banks in compulsory administrative liquidation and which concern, among other things, disputes brought (also before 26 June 2017) by shareholders and convertible and/or subordinate bondholders of one of the two former Venetian banks, disputes relating to non-performing loans, disputes relating to relationships terminated at the date of the transfer, and all disputes (whatever their subject) arising after the sale and relating to acts or events occurring prior to the sale;

b) the relevant allowances were transferred to Intesa Sanpaolo along with the Previous Disputes; in any case, if and to the extent the provisions transferred prove insufficient, Intesa Sanpaolo will be entitled to be indemnified by the Banks in compulsory administrative liquidation, at the terms provided for in the sale contract of 26 June 2017. This indemnity is backed by a government guarantee, pursuant to Decree Law 99/2017;

c) after 26 June 2017, a number of lawsuits included within the Excluded Disputes were initiated or resumed against Intesa Sanpaolo. With regard to these lawsuits:
   - Intesa Sanpaolo is pleading and will plead its non-involvement and lack of capacity to be sued, both on the basis of the provisions of Decree Law 99/2017[4] (Article 3), the sale contract signed with the two Banks in compulsory administrative liquidation on 26 June 2017 (Articles 3.1.1, 3.1.4 and 3.2), the First Acknowledgement Agreement signed on 19 December 2017, and the Second Acknowledgement Agreement signed on 17 January 2018 (Article 3 and Attachment 1.1), and in compliance with the European Commission provisions on State Aid (Decision C(2017) 4501 final and Attachment B to the sale contract of 26 June 2017), which prohibit Intesa Sanpaolo from taking responsibility for any claims made by the shareholders and subordinated bondholders of the former Venetian Banks;
   - even if there were to be a ruling against Intesa Sanpaolo (and in any event for the charges incurred by Intesa Sanpaolo for any reason in relation to its involvement in any Excluded Disputes), it would have the right to be fully reimbursed by the Banks in compulsory administrative liquidation;
   - it should be noted that the Banks in compulsory administrative liquidation have contractually acknowledged their capacity to be sued with respect to the Excluded Disputes, such that, with effect from 26 June 2017, they have entered appearances in various proceedings initiated (or re-initiated) by various shareholders and subordinate bondholders against Intesa Sanpaolo (or in any case included in the category of Excluded Disputes), asking for the declaration of their exclusive capacity to be sued and the consequent exclusion of Intesa Sanpaolo from those proceedings;

d) pursuant to the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo, the disputes regarding the marketing of shares/convertible and/or subordinated bonds initiated against Banca Nuova (subsequently merged by incorporation into Intesa Sanpaolo) and Banca Apulia are also included in the Excluded Disputes (and therefore have the same treatment as described above, as a result of the abovementioned provisions and based on the criteria set out in the retransfer agreements signed on 10 July 2017, as subsequently supplemented). In this regard, however, it should be noted that, as at 30 June 2018, the Securities and Financial Ombudsman (*Arbitro per le Controversie Finanziarie*) upheld 20 appeals filed against Banca Nuova regarding shares of Banca Popolare di Vicenza and 14 against Banca Apulia regarding shares of Veneto Banca. Banca Nuova (now Intesa Sanpaolo) and Banca Apulia did not implement the decisions because – for the reasons set out above and in accordance with the provisions of the European Commission Decision C(2017) 4501 final on State aid – any liability relating to the marketing of the shares of the former Venetian banks must be considered as being borne exclusively by the two Banks in compulsory administrative liquidation.

Some information is provided below on two decisions made by the Judicial Authority.

(i) *Criminal proceedings against the top management of Veneto Banca* - In January 2018, as part of a criminal proceeding before the Court of Rome for the alleged market rigging and obstructing the Supervisory Authorities in the performance of their functions with respect to officers and executives of Veneto Banca, the preliminary hearing judge decided that Intesa Sanpaolo could be charged with civil liability. According to the judge, the exclusion from the sale to

[4] Published in the Official Gazette no. 146 of 25 June 2017 and converted by Law 121 of 31 July 2017.

Intesa Sanpaolo of the debts, responsibilities and liabilities deriving from the sale of shares and subordinated bonds – envisaged by Decree Law 99/2017 – would not be objectionable by third parties, while Article 2560 of the Italian Civil Code would be applicable in the case in question and Intesa Sanpaolo should therefore take on those liabilities.
As a result of this decision, more than 3,800 civil plaintiffs holding Veneto Banca shares or subordinated bonds joined the proceedings. Intesa Sanpaolo therefore entered an appearance requesting its exclusion from the proceedings, in application of the provisions of Decree Law 99/2017, of the rules established for the compulsory administrative liquidation of banks and, before that, of the principles and rules contained in the bankruptcy law, in addition to the constitutional principles and decisions made at EU level with regard to the operation relating to the former Venetian banks. In turn, Veneto Banca in compulsory administrative liquidation intervened voluntarily affirming its exclusive, substantial and procedural capacity to be sued.
In March 2018, the preliminary hearing judge declared his lack of territorial jurisdiction, transferring the files to the Public Prosecutor's Office of Treviso. The charge of civil liability and the joinders of the civil parties were therefore removed.
On the other hand, it should be noted that, in a criminal proceeding before the Court of Vicenza against the directors and executives of Banca Popolare di Vicenza, the preliminary hearing judge rejected the request for authorisation to charge Intesa Sanpaolo with civil liability, arguing on the basis of the provisions of the sale contract of 26 June 2017 and the special provisions contained in Decree Law 99/2017.

(ii) *Civil dispute pending before the Court of Vicenza against Veneto Banca in compulsory administrative liquidation* – In March 2018, as part of a lawsuit filed by a Veneto Banca shareholder, the Court of Vicenza ordered Intesa Sanpaolo to be summoned to appear in the proceedings, based on arguments similar to those put forward by the preliminary hearing judge in Rome in the proceedings referred to in point (i) above. However, it should be noted that, in other civil proceedings, the exclusive capacity to be sued of the two Banks in compulsory administrative liquidation has been affirmed, without the involvement of Intesa Sanpaolo.

Tax litigation

The Group's tax payable litigation risks are covered by adequate provisions to the allowances for risks and charges.
As at 30 June 2018, Intesa Sanpaolo had pending litigation proceedings (for tax, fines and interest) for a total amount of 220 million euro (214 million euro as at 31 December 2017), considering both administrative and judicial proceedings at various instances.
In relation to these proceedings, the actual risks were quantified at 64 million euro as at 30 June 2018 (65 million euro as at 31 December 2017).
In the first half, only one new dispute of a significant amount was initiated (dispute of 6.7 million euro, plus interest; fines not imposed). Two transactions involving the contribution of private equity business lines and the subsequent partial demerger were contested against the Parent Company and IMI Investimenti, as jointly and severally liable, which the Italian Revenue Agency - Second Provincial Office of Milan reclassified as transfers of business lines subject to registration tax at a proportional rate (3%).
At the Group's other Italian companies included in the scope of consolidation (with the exclusion of Risanamento S.p.A., not subject to management and coordination by Intesa Sanpaolo), tax litigation totalled 131 million euro as at 30 June 2018 (139 million euro at 31 December 2017), covered by specific provisions of 31 million euro (32 million euro at the end of 2017).
No new significant claims were recorded for these companies during the first half.
For Banca IMI, two tax disputes of a significant amount relating to 2005 and 2006 were closed as a result of access to the procedure for the settlement of pending tax disputes concerning withholding tax on manufactured dividends paid to non-residents in relation to Italian shares borrowed by Banca IMI. With respect to a total value of claims of 20.2 million euro, the settlement was made for a total of 8.6 million euro, without effect on the income statement, as the claims were covered by specific allowances for tax litigation. In addition, on 24 January 2018, the Lombardy Regional Office - Large Taxpayers Department of the Italian Revenue Agency began a tax audit of direct taxes, VAT, IRAP and withholding tax for 2015.
In May, the IRES and IRAP disputes for the year 2012 were settled for Banca Apulia, a company that joined the ISP Group following the acquisition of the business lines of the Venetian Banks. Starting from an initial total claim for IRES and IRAP for the 2012 tax year of 5.5 million euro, the dispute was settled by means of a tax settlement proposal for a total charge of 0.8 million euro (partly already paid by the bank in the form of substitute tax and acknowledged by the Italian Revenue Agency and partly through use of the allowance for tax litigation). This settlement prevented an identical claim of significant value for the tax periods from 2013 to 2021.
As regards Mediocredito Italiano, following the final judgement handed down by the Lombardy Regional Tax Commission, the litigation concerning VAT for the tax year 2007 (former Leasint) was concluded in the bank's favour with respect to an original claim of over 7 million euro (for taxes, interest and fines).
The general tax audit of Intesa Sanpaolo Assicura concerning the tax periods 2013, 2014 and 2015 was completed on 21 May, with an overall positive outcome. For the settlement of the findings, it is estimated that the actual cost will not exceed 0.3 million euro.
Tax disputes involving international subsidiaries, totalling 5.4 million euro (11 million euro as at 31 December 2017), are covered by allowances of 3.6 million euro (3 million euro as at 31 December 2017).
A tax audit of IMI SEC by the US tax authorities was initiated for the years 2015 and 2016. Lastly, the VAT dispute of the foreign subsidiary CIB Bank Ltd (claim amount of 3.6 million euro) was concluded with an unfavourable ruling by the local Supreme Court. Nevertheless, this had no effect on the income statement, as the company had already paid the entire amount of the tax claim in full in previous years.

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 the 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 June 2018, the investment portfolios - recorded at book value and gross of transactions with other companies within the scope of consolidation - amounted to 155,480 million euro. Of these, a part amounting to 78,929 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 76,551 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, 85.2% of assets, i.e. approximately 67,221 million euro, were bonds, whereas assets subject to equity risk represented 1.5% of the total and amounted to 1,197 million euro. The remainder (10,532 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.3%).
The carrying value of derivatives came to approximately -21.3 million euro, of which 20.7 million euro relating to effective management derivatives[5], and the remaining portion (0.5 million euro) is attributable to hedging derivatives.
At the end of the first six months of 2018, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,538 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 40 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 3,555 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 3.4% of total investments and A bonds approximately 8.6%. Low investment grade securities (BBB) were approximately 85.5% of the total and the portion of speculative grade or unrated was minimal (approximately 2.5%).
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 75.5% of the total investments, while financial companies (mostly banks) contributed approximately 13.2% of exposure and industrial securities made up approximately 11.3%.

[5] ISVAP Regulation 36 of 31 January 2011 on investments defines as “effective management derivatives” 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.

At the end of the first half of 2018, 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 3,629 million euro, with 2,823 million euro due to government issuers and 806 million euro to corporate issuers (financial institutions and industrial companies).

Shareholder base, transactions with related parties and other information

Shareholder base

As a result of the share capital increases made on 11 July 2018 to service the 2018-2021 LECOIP 2.0 Long-Term Investment Plan based on financial instruments, the share capital rose from 8,731,984,115.92 euro to 9,084,056,582.12 euro, divided into 16,536,849,020 ordinary shares and 932,490,561 non-convertible savings shares.
According to records in the Shareholders' Register and the most recent available information, shareholders with stakes exceeding 3% – threshold that, if exceeded, requires disclosure to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,188,947,304	7.190%
Fondazione Cariplo	767,029,267	4.638%
JPMorgan Chase & Co. (1)	692,902,451	4.190%

(1) JPMorgan Chase & Co owns an aggregate investment of 7.353%, of which 4.190% with voting rights, in accordance with form 120 B of 16 July 2018, as a result of the positions held following the issue of LECOIP 2.0 Certificates, having as underlying instruments Intesa Sanpaolo ordinary shares, that the Intesa Sanpaolo Group's employees have received under the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments.

Transactions with related parties

1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.
These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:
– the criteria for identifying Related Parties and Associated Entities;
– the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
– market disclosure for transactions with Related Parties;
– the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
– the rules governing organisational controls and safeguards;
– the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.
The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of the total of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold

set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least one of the following indicators:
- the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as the transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.
The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full and partial exemptions from the application of the regulations is also envisaged.
With regard to the decision-making for transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, the procedure distinguishes between:
- transactions involving small amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for persons other than natural persons (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for persons other than natural persons) but lower or equal to the most significant thresholds indicated below;
- most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for the Intesa Sanpaolo Group);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.
For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.
All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.
The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup less significant transactions carried out at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.
In particular, Article 2391 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

2. Information on balances with related parties

Receivable and payable balances with related parties as at 30 June 2018 within the consolidated accounts – other than those intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

	30.06.2018	
	Amount (millions of euro)	Impact (%)
Total financial assets	1,582	0.2
Total other assets	6	0.1
Total financial liabilities	2,524	0.4
Total other liabilities	482	0.5

	30.06.2018	
	Amount (millions of euro)	Impact (%)
Total interest income	17	0.3
Total interest expense	2	0.1
Total fee and commission income	5	0.1
Total fee and commission expense	7	0.6
Total operating costs	21	0.4

In relation to associates and companies subject to joint control, in the half-year a total of around 8 million euro of adjustments were made to loans and around 1 million euro of recoveries were recognised on unsecured commitments.
The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope set as a form of self-regulation.
The table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments totalling 41 million euro.

(millions of euro)

	Subsidiaries not consolidated on a line-by-line basis	**Companies subject to joint control and their subsidiaries**	**Associates and their subsidiaries**	**Board Members and General Managers, Key Managers and their related parties**	**Pension funds**	**TOTAL**	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	-	65	155	-	-	220	-	-
a) financial assets held for trading	-	*2*	*4*	-	-	*6*	-	-
b) financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	*63*	*151*	-	-	*214*	-	-
Financial assets measured at fair value through other comprehensive income	-	1	-	-	-	1	20	-
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-	3	-	-	-	3	1	-
Financial assets measured at amortised cost	1	303	372	9	-	685	-	5
a) due from banks	-	-	-	-	-	-	-	-
b) loans to customers	1	303	372	9	-	685	-	5
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Other assets	3	-	1	-	2	6	-	-
Investments in associates and companies subject to joint control	32	161	454	-	-	647	-	-
Financial liabilities measured at amortised cost	151	99	939	16	535	1,740	502	267
a) due to banks	90	-	4	-	-	94	-	-
b) due to customers	61	99	935	16	535	1,646	502	267
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Financial liabilities held for trading	2	-	-	-	-	2	-	-
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-	-	13	13	-	-
Other financial liabilities	1	-	2	6	471	480	2	-
Guarantees and committments given	7	96	124	1	1	229	11	8
Guarantees and committments received	-	103	258	24	-	385	-	7
Total	**197**	**831**	**2,305**	**56**	**1,022**	**4,411**	**536**	**287**

(*) Shareholders and their groups that hold a stake in the share capital exceeding the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies, calculated considering only shares owned or under management (currently 3%), as well as entities jointly controlled by them.

(**) Companies that have at least two of the following indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group towards the counterparty.

For the sake of completeness, the Group's most significant associates – and the companies controlled by them – included in the category of related parties in accordance with the version of IAS 24 in effect are: Penghua Fund Management Co. Ltd, Equiter S.p.A., Cassa di Risparmio di Fermo S.p.A., Manzoni S.r.l., Autostrada Pedemontana Lombarda S.p.A., Consorzio Bancario Sir S.p.A. in liquidation, and Rainbow. The main companies subject to joint control (joint ventures) include: Autostrade Lombarde S.p.A., Tangenziali Esterne di Milano S.p.A., Mir Capital Sca Sicar and Tangenziale Esterna S.p.A.

3. Information on transactions with related parties

Most significant transactions
During the first half of 2018, the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.
Please note the that most significant transactions in the period are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.4 billion euro) or of the other indicators defined by the Consob regulation.

Most significant intragroup transactions
With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – the sale of a mortgage portfolio to the vehicle company ISP OBG S.r.l. took place during the period, for an amount of about 4.2 billion euro, as part of the Covered Bond issue programme, and will be fully settled by the disbursement of a subordinated loan by the Parent Company.

Other significant transactions
The transactions entered into with related parties in the first half of 2018 fall within the scope of the Group's ordinary activities and are generally entered into at market conditions, based on valuations of mutual economic interest, in line with the internal procedures mentioned above.
The main less significant transactions concluded during the first half of 2018 by the Parent Company or subsidiaries with related parties are reported below.
Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level.
Relations between the Intesa Sanpaolo Group, board members and general managers, their close family members and entities controlled by them refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.

With respect to transactions with Shareholders with equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (to which the provisions governing transactions with related parties were extended as a form of self-regulation, subjecting them to the same assessment and approval procedure as applied to transactions with related parties), mainly ordinary lending transactions were undertaken, settled at market conditions.
Finally, transactions in OTC financial instruments were also carried out by Banca IMI S.p.A. with Blackrock Fund Managers Ltd. and Quaestio Capital SGR S.p.A.
In relation to Significant Shareholders with significant equity and financial ties to the Group, stakes in the capital of the Bank of Italy were sold to Fondazione Cassa Risparmio di Padova e Rovigo (1,200 stakes for a total of 30 million euro) and to Fondazione Cassa di Risparmio in Bologna (750 stakes for a total of approximately 19 million euro). The stakes were sold at a price equalling the related nominal value, in line with the conditions applied for sales to unrelated counterparties.

Significant transactions between the Group and companies subject to joint control, associates and their subsidiaries included the provision and renewal of credit facilities to: Alitalia Società Aerea Italiana S.p.A. in extraordinary administration, Autostrade Lombarde S.p.A., Italconsult S.p.A., Immobiliare Novoli S.p.A., Arborea Società Agricola S.r.l., Sandonato S.r.l., Flabrum S.r.l., and other minor companies. These transactions were carried out at rates aligned to market rates or in any case suitable for the Group. Transactions in OTC financial instruments were also carried out by Banca IMI S.p.A. with Cassa di Risparmio di Fermo.

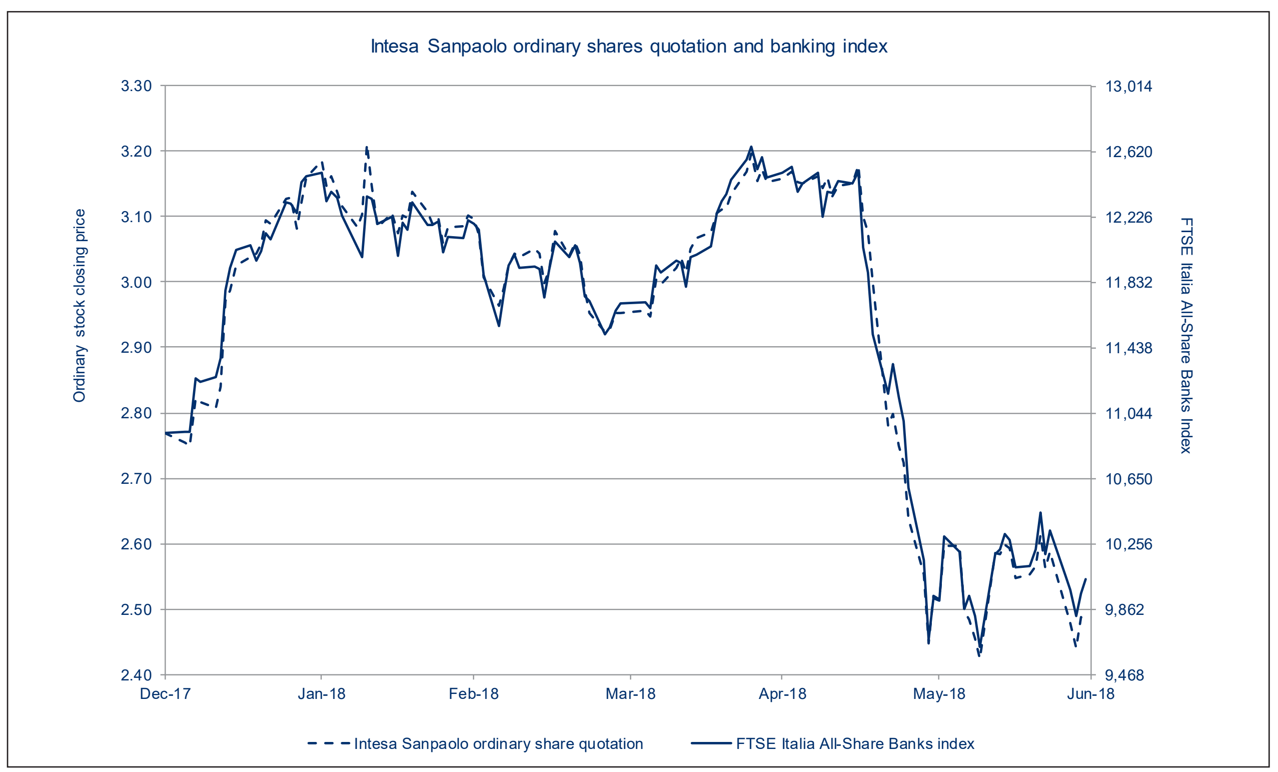
Among other significant transactions with companies subject to joint control and associates, we report the early settlement of three securitisation transactions that were no longer functional, originated by Banca Apulia S.p.A. with the vehicle companies Apulia Finance n. 2 S.r.l., Apulia Mortgages Finance n. 3 S.r.l. and Apulia Finance n. 4 S.r.l.

Finally, transactions conducted with benefit funds for employees of Intesa Sanpaolo and other Group Companies included transactions in OTC financial instruments by Banca IMI S.p.A. with Cariplo Pension Fund.

Other significant information
With reference to the investments carried at equity, negative impacts of non material amount were recorded on the income statement deriving from Class Digital Service, Autostrada Pedemontana Lombarda, Immobiliare Novoli and Varese Investimenti.
For pension funds benefiting the Group's employees in which Intesa Sanpaolo companies are co-obliged by virtue of guarantees given, payments were made during the period for the settlement of the technical imbalance of the Complementary Pension Fund for the employees of Banco di Napoli - Section A, already recognised in the 2017 financial statements. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

Stock price performance
The first half of 2018 witnessed a progressive rise in the risk aversion of investors, fuelled by economic risks, as economic growth appears to have passed its peak, as well as by political risks. In that context, the European banking index dropped by 15.4%, driven down by the negative performance posted by major banks included in the index, in particular German banks. The index performed 12.3% lower than the Eurostoxx 50 index.

Italian banks performed positively from the end of 2017 through to mid-May, when political uncertainty drove the BTP-Bund spread up to around 240 basis points, leading the Italian index to close the half-year down by 8.1%. In the first half of 2018, the index performed 7% lower than the FTSE MIB, but 7.3% higher than the European banking index.
The performance of Intesa Sanpaolo ordinary shares in the first half of 2018 mirrored that of the banking sector indices, showing an upward trend until the start of February, when the stock price peaked, followed by price swings until mid-May, and then a marked decline in the second half of May, and then more swings in June, with the stock closing the half-year down 10.2% compared to the end of 2017. The stock price of Intesa Sanpaolo savings shares at the end of June 2018 posted a 2.3% drop on the end-2017 figure. Compared to ordinary shares, savings shares moved from a discount of around 4% at the end of 2017 to a premium of around 4% at the end of June 2018, in conjuction with the conversion into ordinary shares underway at a rate of 1.04 ordinary shares per savings share.
Intesa Sanpaolo's capitalisation dropped to 41.9 billion euro at the end of June 2018, from 46.4 billion euro at the end of 2017.



EPS - Earnings per Share

As at 30 June 2018, Intesa Sanpaolo's share capital consisted of ordinary and savings shares with different rights for the allocation of net income, which have been taken into account for the determination of the portion of net income attributable to each type of share.
Net income attributable to both ordinary and savings shares was determined considering the most recent dividends attributed to each type of share and then allocating the residual portion of net income, in the hypothetical assumption of its total distribution, in equal weight to all shares outstanding. The Earnings Per Share (EPS) indicator is presented both in the "basic" and in the “diluted” formula: basic EPS is calculated by dividing income theoretically attributable to holders of different categories of shares by the weighted average number of the shares outstanding; diluted EPS takes into account the effect of any future issues of ordinary shares.

	30.06.2018		30.06.2017	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Weighted average number of shares	15,835,756,750	932,490,561	15,837,925,542	932,490,561
Income attributable to the various categories of shares (millions of euro)	2,048	131	4,937	301
Basic EPS (euro)	0.13	0.14	0.31	0.32
Diluted EPS (euro)	0.13	0.14	0.31	0.32
Basic EPS annualised (*) (euro)	0.26	0.28	0.62	0.64
Diluted EPS annualised (*) (euro)	0.26	0.28	0.62	0.64

(*) Income is not indicative of the forecast net income for the year, since it is obtained by annualising the net income for the period.

Excluding the public contribution of 3.5 billion euro assigned by the Italian government within the context of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the basic earning per share and diluted earning per share as at 30 June 2017 would be equal to 0.10 euro (0.21 euro the annualized figure).

Price/book value

(millions of euro)

	30.06.2018	1st half 2018	2017	2016	2015	2014
Market capitalisation	41,858	49,431	44,820	37,152	51,903	38,096
Shareholders' equity	51,227	52,248	52,558	48,344	46,230	44,599
Price / book value	**0.82**	**0.95**	**0.85**	**0.77**	**1.12**	**0.85**

The index reflects the value attributed by the market to the share capital of a listed company, and hence indirectly to the company's overall assets. The index, while measuring the confidence which financial analysts and the financial community have in the company's income prospects and capital strength, is affected significantly by the external factors that influence stock prices. Also for the Intesa Sanpaolo Group, the performance of the index – as at 30 June 2018 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

Rating

Following the announcement of the 2018–2021 Business Plan, Moody's and S&P Global both confirmed their ratings of ISP. Specifically:

- on 16 February 2018, Moody's confirmed its "Baa1/P-2" rating and stable outlook on senior unsecured debt, and its "A3/P-2" rating and negative outlook on deposits;
- on 20 March 2018, S&P Global confirmed its "BBB/stable/A-2" rating of ISP.

On 30 May, Moody's announced a review of its "A3" rating on ISP deposits for a possible downgrade, following a similar rating action on Italy announced on 25 May. The "Baa1/stable" rating on senior debt and the "P-2" short-term rating were not affected by the rating action.
On 21 June, DBRS confirmed its "BBB (high)"/"R-1 (low)" rating and stable trend for ISP, in line with the ratings for Italy.

	RATING AGENCY			
	DBRS	Fitch	Moody's	S&P Global
Short-term debt	R-1 (low) (1)	F2	P-2	A-2
Long-term senior debt	BBB (high)	BBB	Baa1 (2)	BBB
Outlook / Trend	Stable	Stable	Stable	Stable
Viability	-	bbb	-	-

(1) Stable trend

(2) Senior debt rating. The rating on deposits is A3 under review for possible downgrade.

Forecast for the year

The growth phase of the global economy is expected to extend to the rest of the year, encouraging the central banks to further reduce their monetary stimulus measures and pushing the rate curves to rise. On the US dollar curve, the movement will mainly affect short-term maturities, while in Europe medium- and long-term maturities may increase. Very short-term rates will remain unchanged and negative on the euro.
Some economic uncertainties, such as those related to the financial exuberance in China, in addition to the political uncertainties also related to the unpredictability of the Trump administration and its protectionist tendencies, are still present. Negotiations for the UK's exit from the European Union have entered a crucial phase and their failure could increase the volatility of the sterling, although it is in the interests of the parties to reach an agreement that avoids a disorderly exit.
In general, European economic growth seems set to slow down, but without any short-term recessionary risks. Uncertainty about Italian budgetary policies could fuel further turbulence in the financial markets, and in the domestic markets in particular. There may be a further significant widening of risk premiums on Italian debt if the fiscal package does not meet the condition of ensuring a decrease in the debt-to-GDP ratio. However, if the government does ensure a reduction in the debt-to-GDP ratio and continues the fiscal consolidation, risk premiums could start to fall again. In any event, the growth of the Italian economy has probably surpassed its peak and could slow down again in the coming quarters.
In 2018, GDP growth in the emerging economies is expected to continue at a strong pace, but differentiated by area. Compared to substantially unchanged growth in Asia, a significant acceleration is expected in the commodities exporting countries of MENA (Middle East and North Africa), of the CIS Group and of Sub-Saharan Africa, where the recovery in energy prices has not only reduced the need for fiscal consolidation policies, but has also made room for possible growth in some cases.
In countries with ISP subsidiaries, GDP growth in the rest of 2018 is expected to slow down in the CEE/SEE area with respect to the peaks reached in 2017. In the CIS Area, growth is expected to remain modest, although with a recovery on the previous year. For Egypt, the further recovery of tourism flows, announced investments in public works, and the start of gas production at newly discovered sites are expected to continue to support the ongoing increase in growth.
The economic performance of the emerging economies is, generally, subject to downward risks, especially in Asia. Indeed, in addition to China, US tariffs may indirectly affect neighbouring areas linked to China in global production chains. The increase in the risk premium seen in many emerging markets between the end of April and May, together with the appreciation of the dollar, may, in turn, weaken the prospects of the countries with the highest external vulnerability (with high current account deficits and foreign debt).
Within the Italian banking system, credit access conditions continue to be favourable, thanks to the support of monetary policy and the availability of supply in a scenario of steady reduction in credit risk. The outlook for demand appears more uncertain, given the signs of a slowdown in growth seen in the spring months. For loans to businesses, the growth that resumed at the beginning of the year is expected to continue, albeit at a modest pace, held back by the situation of continued sufficient liquidity. On the other hand, the use of alternative sources of credit may continue to be affected by the volatility of the financial markets, to the benefit of the bank lending. For households, the lending scenario remains positive: growth in stocks will continue at a moderate pace in 2018, favoured by continued low interest rates, the positive outlook for the real estate market, and improved situation in the labour market.
With regard to funding, the total aggregate will remain essentially unchanged, due to the low demand for customer deposits by banks, considering the evolution of loans and the significant liquidity available. In particular, the net redemption of bonds in the retail segment and the growth in deposits will continue. Once again, uncertainty will continue to fuel balances on overnight deposits. These factors will continue to favour the reduction of customer deposit costs. In a context of continuously very low, where not negative, market rates, and favourable credit access conditions, borrowing rates are expected to remain at lows. Risks for this scenario could arise from a possible further significant increase in the risk premium on sovereign debt, with an impact on the cost of funding for banks.
In 2018, the Intesa Sanpaolo Group's net income is expected to grow compared with 2017, excluding from the 2017 net income the 3.5-billion-euro public cash contribution that offset the impact on the capital ratios resulting from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca. An increase in revenues, continuous cost management and a decrease in the cost of risk are envisaged as the drivers of the expected performance of net income. The dividend policy for 2018 envisages the distribution of an amount of cash dividends corresponding to a payout ratio of 85% of net income.

The Board of Directors

Milan, 1 August 2018

Certification of the Half-yearly condensed consolidated financial statements pursuant to Article 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina, as Managing Director and CEO, and Fabrizio Dabbene, as Manager responsible for preparing the Company's financial reports of Intesa Sanpaolo, also taking into account the provisions of Article 154 bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, hereby certify:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the Half-yearly condensed consolidated financial statements, in the first half of 2018.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Half-yearly condensed consolidated financial statements as at 30 June 2018 was based on methods defined by Intesa Sanpaolo consistently with the COSO and, as to the IT component, COBIT models, which are internationally accepted frameworks for internal control systems[6].

3. The undersigned also certify that:

   3.1. the Half-yearly condensed consolidated financial statements as at 30 June 2018:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 of 19 July 2002;
   - correspond to the results of the accounting books and records;
   - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation.

   3.2. The Half-yearly report on operations contains a reliable analysis of the most significant events in the first six months of the year and their impact on the Half-yearly condensed consolidated financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Half-yearly report on operations also includes a reliable analysis of significant transactions with related parties.

Milan, 1 August 2018

Carlo Messina
Managing Director and CEO

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

[6] The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control OBjectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

Independent Auditors' Report

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
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Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the shareholders of
Intesa Sanpaolo S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Intesa Sanpaolo Group, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2018. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Trieste Varese Verona

Società per azioni
Capitale sociale
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R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Conclusions

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Intesa Sanpaolo Group as at and for the six months ended 30 June 2018 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 3 August 2018

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director of Audit

Attachments

Reconciliation between published consolidated financial statements and consolidated financial statements according to the new Circular 262

Reconciliation between published consolidated balance sheet as at 31 December 2017 and consolidated balance sheet as at 31 December 2017 according to the new Circular 262

Reconciliation between published consolidated income statement for the period ended 30 June 2017 and consolidated income statement for the period ended 30 June 2017 according to the new Circular 262

Reconciliation between consolidated balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between consolidated financial statements (IFRS 9) and restated consolidated financial statements

Reconciliation between consolidated balance sheet as at 1 January 2018 (IFRS 9) and the restated consolidated balance sheet at 1 January 2018

Reconciliation between consolidated income statement as at 30 June 2017 (IFRS 9) and restated consolidated income statement as at 30 June 2017

Reconciliation between consolidated income statement as at 30 June 2018 and restated consolidated income statement as at 30 June 2018

Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated income statement

Reconciliation between consolidated restated financial statements and reclassified consolidated financial statements

Reconciliation between consolidated restated balance sheet and reclassified consolidated balance sheet

Reconciliation between consolidated restated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and consolidated financial statements according to the new Circular 262

Reconciliation between published consolidated balance sheet as at 31 December 2017 and consolidated balance sheet as at 31 December 2017 according to the new Circular 262

(millions of euro)

31 December 2017 new 262 / 31 December 2017 published	10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit and loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Investments in associates and companies subject to joint control	110. Technical insurance reserves reassured with third parties	120. Property and equipment	130. Intangible assets	140. Tax assets	150. Non-current assets held for sale and discontinued operations	160. Other assets	**TOTAL ASSETS**
10. Cash and cash equivalents	9,353																**9,353**
20. Financial assets measured at fair value through profit or loss		39,028	554														**39,582**
a) financial assets held for trading		*39,028*															***39,028***
b) financial assets designated at fair value			*554*														***554***
c) other financial assets mandatorily measured at fair value																	**-**
30. Financial assets measured at fair value through other comprehensive income				64,968													**64,968**
35. Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39		490	74,715	77,373				4									**152,582**
40. Financial assets measured at amortised cost					1,174	72,057	410,728										**483,959**
a) due from banks						*72,057*											***72,057***
b) loans to customers					*1,174*		*410,728*										***411,902***
45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39						405	18										**423**
50. Hedging derivatives								4,213									**4,213**
60. Fair value change of financial assets in hedged portfolios (+/-)									-204								**-204**
70. Investments in associates and companies subject to joint control										678							**678**
80. Technical insurance reserves reassured with third parties											16						**16**
90. Property and equipment												6,678					**6,678**
100. Intangible assets													7,741				**7,741**
of which:goodwill													*4,056*				***4,056***
110. Tax assets														16,887			**16,887**
a) current														*3,688*			***3,688***
b) deferred														*13,199*			***13,199***
120. Non-current assets held for sale and discontinued operations															627		**627**
130. Other assets																9,358	**9,358**
TOTAL ASSETS	**9,353**	**39,518**	**75,269**	**142,341**	**1,174**	**72,462**	**410,746**	**4,217**	**-204**	**678**	**16**	**6,678**	**7,741**	**16,887**	**627**	**9,358**	**796,861**

(millions of euro)

31 December 2017 new 262 \ 31 December 2017 published	10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	130. Technical reserves	**TOTAL**
10. Financial liabilities measured at amortised cost	99,989	323,386	92,985											**516,360**
a) due to banks	*99,989*													***99,989***
b) due to customers		*323,386*												***323,386***
c) securities issued			*92,985*											***92,985***
15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1	57	1,254											**1,312**
20. Financial liabilities held for trading				41,218										**41,218**
30. Financial liabilities designated at fair value					3									**3**
35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39				67	68,166									**68,233**
40. Hedging derivatives						7,489								**7,489**
50. Fair value change of financial liabilities in hedged portfolios (+/-)							478							**478**
60. Tax liabilities								2,509						**2,509**
a) current								*364*						***364***
b) deferred								*2,145*						***2,145***
70. Liabilities associated with non-current assets held for sale and discontinued operations									264					**264**
80. Other liabilities										12,247				**12,247**
90. Employee termination indemnities											1,410			**1,410**
100. Allowances for risks and charges										327		5,481		**5,808**
a) commitments and guarantees given										*327*		*-*		***327***
b) post-employment benefits												*1,104*		***1,104***
c) other allowances for risks and charges												*4,377*		***4,377***
110. Technical reserves													82,926	**82,926**
TOTAL	**99,990**	**323,443**	**94,239**	**41,285**	**68,169**	**7,489**	**478**	**2,509**	**264**	**12,574**	**1,410**	**5,481**	**82,926**	**740,257**

(millions of euro)

31 December 2017 new 262 \ 31 December 2017 published	140. Valuation reserves	150. Redeemable shares	160. Equity instruments	170. Reserves	180. Share premium reserve	190. Share capital	200. Treasury shares (-)	210. Minority interests (+/-)	220. Net income (loss)	**TOTAL**
120. Valuation reserves	-1,206									**-1,206**
125. Valuation reserves pertaining to insurance companies	417									**417**
130. Redeemable shares										**-**
140. Equity instruments			4,103							**4,103**
150. Reserves				10,921						**10,921**
160. Share premium reserve					26,006					**26,006**
170. Share capital						8,732				**8,732**
180. Treasury shares (-)							-84			**-84**
190. Minority interests (+/-)								399		**399**
200. Net income (loss) (+/-)									7,316	**7,316**
TOTAL	**-789**	**-**	**4,103**	**10,921**	**26,006**	**8,732**	**-84**	**399**	**7,316**	**56,604**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY										**796,861**

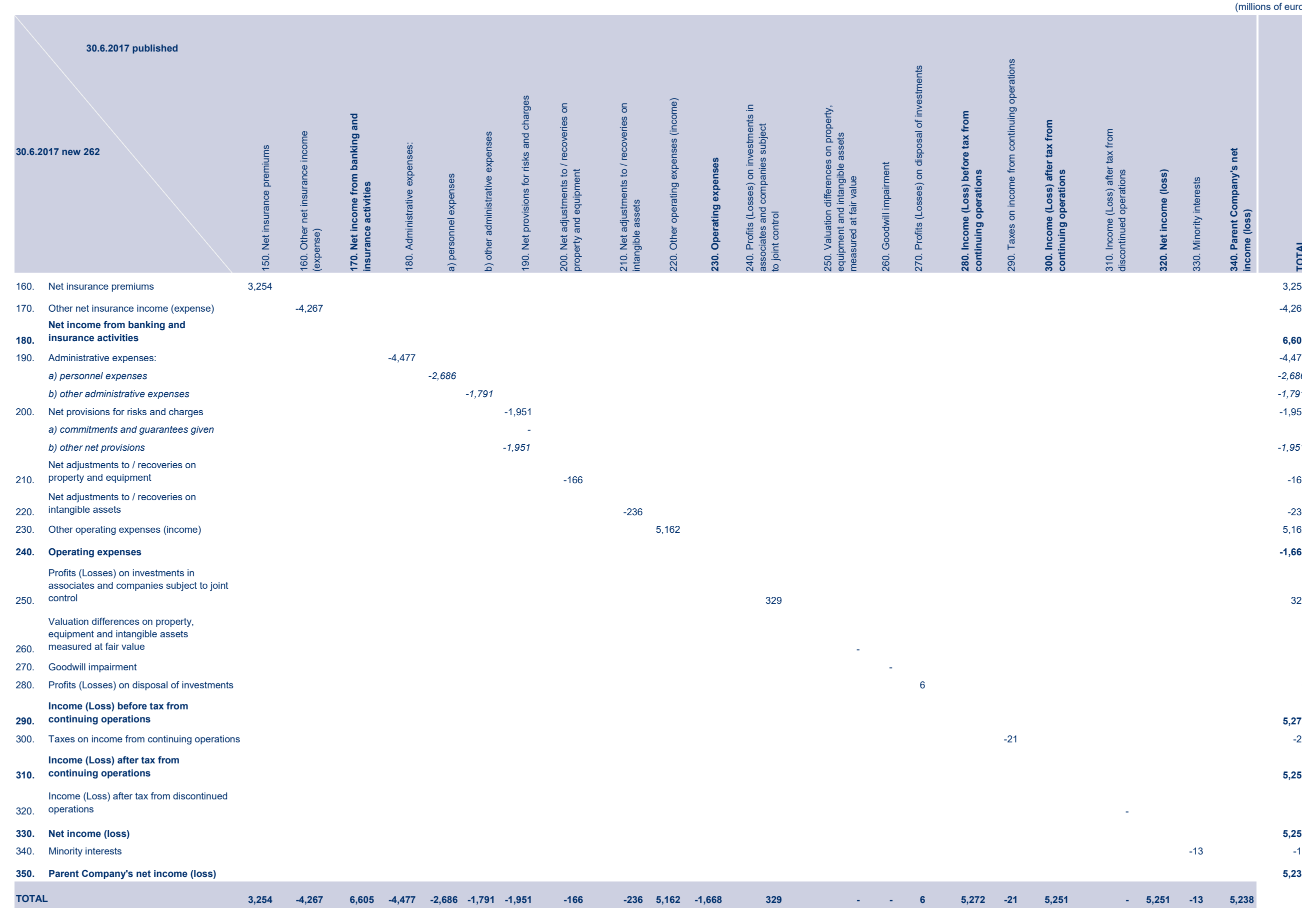
Reconciliation between published consolidated income statement for the period ended 30 June 2017 and consolidated income statement for the period ended 30 June 2017 according to the new Circular 262 - *(Continued)*

(millions of euro)

30.6.2017 new 262 \ 30.6.2017 published		10. Interest and similar income	20. Interest and similar expense	**30. Interest margin**	40. Fee and commission income	50. Fee and commission expense	**60. Net fee and commission income**	70. Dividend and similar income	80. Profits (Losses) on trading	90. Fair value adjustments in hedge accounting	100. Profits (Losses) on disposal or repurchase of:	a) loans	b) financial assets available for sale	c) investments held to maturity	d) financial liabilities	110. Profits (Losses) on financial assets and liabilities designated at fair value	**120. Net interest and other banking income**	130. Net losses / recoveries on impairment	a) loans	b) financial assets available for sale	c) investments held to maturity	d) other financial activities	**140. Net income from banking activities**	**TOTAL**
10.	Interest and similar income	5,196																						5,196
20.	Interest and similar expense		-1,851																					-1,851
30.	**Interest margin**																							**3,345**
40.	Fee and commission income				4,496																			4,496
50.	Fee and commission expense					-976																		-976
60.	**Net fee and commission income**																							**3,520**
70.	Dividend and similar income							59																59
80.	Profits (Losses) on trading								306															306
90.	Fair value adjustments in hedge accounting									-3														-3
100.	Profits (Losses) on disposal or repurchase of:										255													255
	a) financial assets measured at amortised cost											*-19*		*1*										*-18*
	b) financial assets measured at fair value through other comprehensive income												*299*											*299*
	c) financial liabilities														*-26*									*-26*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss															-								-
	a) financial assets and liabilities designated at fair value															-								-
	b) other financial assets mandatorily measured at fair value															-								-
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	968	-34					124	-75		180		180			556								1,719
120.	**Net interest and other banking income**																							**9,201**
130.	Net losses/recoveries for credit risks associated with:																	-1,581						-1,581
	a) financial assets measured at amortised cost																		*-1,091*			*-30*		*-1,121*
	b) financial assets measured at fair value through other comprehensive income																			*-460*				*-460*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39																	-2		-2				-2
140.	Profits (Losses) on changes in contracts without derecognition																							-
150.	**Net income from banking activities**	**6,164**	**-1,885**	**4,279**	**4,496**	**-976**	**3,520**	**183**	**231**	**-3**	**435**	**-19**	**479**	**1**	**-26**	**556**	**9,201**	**-1,583**	**-1,091**	**-462**	**-**	**-**	**7,618**	**7,618**

Reconciliation between published consolidated income statement for the period ended 30 June 2017 and consolidated income statement for the period ended 30 June 2017 according to the new Circular 262

(millions of euro)



30.6.2017 new 262	30.6.2017 published	150. Net insurance premiums	160. Other net insurance income (expense)	**170. Net income from banking and insurance activities**	180. Administrative expenses:	a) personnel expenses	b) other administrative expenses	190. Net provisions for risks and charges	200. Net adjustments to / recoveries on property and equipment	210. Net adjustments to / recoveries on intangible assets	220. Other operating expenses (income)	**230. Operating expenses**	240. Profits (Losses) on investments in associates and companies subject to joint control	250. Valuation differences on property, equipment and intangible assets measured at fair value	260. Goodwill impairment	270. Profits (Losses) on disposal of investments	**280. Income (Loss) before tax from continuing operations**	290. Taxes on income from continuing operations	**300. Income (Loss) after tax from continuing operations**	310. Income (Loss) after tax from discontinued operations	**320. Net income (loss)**	330. Minority interests	**340. Parent Company's net income (loss)**	**TOTAL**
160.	Net insurance premiums	3,254																						3,254
170.	Other net insurance income (expense)		-4,267																					-4,267
180.	**Net income from banking and insurance activities**																							**6,605**
190.	Administrative expenses:				-4,477																			-4,477
	a) personnel expenses					*-2,686*																		*-2,686*
	b) other administrative expenses						*-1,791*																	*-1,791*
200.	Net provisions for risks and charges							-1,951																-1,951
	a) commitments and guarantees given							-																-
	b) other net provisions							*-1,951*																*-1,951*
210.	Net adjustments to / recoveries on property and equipment								-166															-166
220.	Net adjustments to / recoveries on intangible assets									-236														-236
230.	Other operating expenses (income)										5,162													5,162
240.	**Operating expenses**																							**-1,668**
250.	Profits (Losses) on investments in associates and companies subject to joint control												329											329
260.	Valuation differences on property, equipment and intangible assets measured at fair value													-										-
270.	Goodwill impairment														-									-
280.	Profits (Losses) on disposal of investments															6								6
290.	**Income (Loss) before tax from continuing operations**																							**5,272**
300.	Taxes on income from continuing operations																	-21						-21
310.	**Income (Loss) after tax from continuing operations**																							**5,251**
320.	Income (Loss) after tax from discontinued operations																			-				-
330.	**Net income (loss)**																							**5,251**
340.	Minority interests																					-13		-13
350.	**Parent Company's net income (loss)**																							**5,238**
TOTAL		**3,254**	**-4,267**	**6,605**	**-4,477**	**-2,686**	**-1,791**	**-1,951**	**-166**	**-236**	**5,162**	**-1,668**	**329**	**-**	**-**	**6**	**5,272**	**-21**	**5,251**	**-**	**5,251**	**-13**	**5,238**	

Reconciliation between consolidated balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

(millions of euro)

	TOTAL ASSETS as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition					TOTAL ASSETS as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICA-TIONS	Changes in carrying amounts due to IFRS 9 transition		TOTAL ASSETS 01.01.2018
		30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers		Change in measurement basis	Impairment	
10. Cash and cash equivalents	9,353						9,353			9,353
20. Financial assets measured at fair value through profit or loss	39,582	-206	2,231	299	90	615	42,611	-52		42,559
30. Financial assets measured at fair value through other comprehensive income	64,968	206	-5,749	379		5	59,809	51		59,860
35. Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582						152,582			152,582
40. Financial assets measured at amortised cost	483,959		3,518	-678	-90	-620	486,089	243	-4,137	482,195
45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423						423			423
50. Hedging derivatives	4,213						4,213			4,213
60. Fair value change of financial assets in hedged portfolios (+/-)	-204						-204			-204
70. Investments in associates and companies subject to joint control	678						678			678
80. Technical insurance reserves reassured with third parties	16						16			16
90. Property and equipment	6,678						6,678			6,678
100. Intangible assets	7,741						7,741			7,741
110. Tax assets	16,887						16,887	-47	1,178	18,018
120. Non-current assets held for sale and discontinued operations	627						627			627
130. Other assets	9,358						9,358			9,358
TOTAL ASSETS	**796,861**	**-**	**-**	**-**	**-**	**-**	**796,861**	**195**	**-2,959**	**794,097**

(millions of euro)

		TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition		TOTAL LIABILITIES as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICATIONS	Effect of transition to IFRS9	TOTAL LIABILITIES 01.01.2018
			60. Hedging derivatives	100. Other liabilities			
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	516,360			516,360		516,360
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312			1,312		1,312
20.	Financial liabilities held for trading	41,218	*238*		41,456		41,456
30.	Financial liabilities designated at fair value	3			3		3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233			68,233		68,233
40.	Hedging derivatives	7,489	*-238*		7,251		7,251
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478			478		478
60.	Tax liabilities	2,509			2,509		2,509
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264			264		264
80.	Other liabilities	12,247		*-22*	12,225		12,225
90.	Employee termination indemnities	1,410			1,410		1,410
100.	Allowances for risks and charges	5,808		*22*	5,830	186	6,016
110.	Technical reserves	82,926			82,926		82,926
120.	Valuation reserves	-1,206			-1,206	328	-878
125.	Valuation reserves pertaining to insurance companies	417			417		417
130.	Redeemable shares	-			-		-
140.	Equity instruments	4,103			4,103		4,103
150.	Reserves	10,921			10,921	-3,265	7,656
160.	Share premium reserve	26,006			26,006		26,006
170.	Share capital	8,732			8,732		8,732
180.	Treasury shares (-)	-84			-84		-84
190.	Minority interests (+/-)	399			399	-13	386
200.	Net income (loss) (+/-)	7,316			7,316		7,316
TOTAL		**796,861**	**-**	**-**	**796,861**	**-2,764**	**794,097**

Reconciliation between consolidated financial statements (IFRS 9) and restated consolidated financial statements

Reconciliation between consolidated balance sheet as at 1 January 2018 (IFRS 9) and the restated consolidated balance sheet at 1 January 2018

(millions of euro)

Assets		1.1.2018 (IFRS 9)	Changes in the scope of consolidation (a)	1.1.2018 Restated
10.	Cash and cash equivalents	9,353	94	9,447
20.	Financial assets measured at fair value through profit or loss	42,559	8	42,567
	a) financial assets held for trading	*39,651*	*3*	*39,654*
	b) financial assets designated at fair value	*214*	*-*	*214*
	c) other financial assets mandatorily measured at fair value	*2,694*	*5*	*2,699*
30.	Financial assets measured at fair value through other comprehensive income	59,860	100	59,960
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582	-	152,582
40.	Financial assets measured at amortised cost	482,195	185	482,380
	a) due from banks	*72,108*	*109*	*72,217*
	b) loans to customers	*410,087*	*76*	*410,163*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423	-	423
50.	Hedging derivatives	4,213	-	4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204	-	-204
70.	Investments in associates and companies subject to joint control	678	-	678
80.	Technical insurance reserves reassured with third parties	16	-	16
90.	Property and equipment	6,678	29	6,707
100.	Intangible assets	7,741	1	7,742
	of which:			
	- goodwill	*4,056*	*1*	*4,057*
110.	Tax assets	18,018	1	18,019
	a) current	*4,802*	*1*	*4,803*
	b) deferred	*13,216*	*-*	*13,216*
120.	Non-current assets held for sale and discontinued operations	627	-	627
130.	Other assets	9,358	13	9,371
Total assets		**794,097**	**431**	**794,528**

[a] The restatement refers to the entry of Morval Vonwiller Holding SA group companies in the Group.

(millions of euro)

Liabilities and Shareholders' Equity		1.1.2018 (IFRS 9)	Changes in the scope of consolidation (a)	1.1.2018 Restated
10.	Financial liabilities measured at amortised cost	516,360	267	516,627
	a) due to banks	*99,989*	*3*	*99,992*
	b) due to customers	*323,386*	*264*	*323,650*
	c) securities issued	*92,985*	*-*	*92,985*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312	-	*1,312*
20.	Financial liabilities held for trading	41,456	*3*	*41,459*
30.	Financial liabilities designated at fair value	3	-	*3*
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233	-	*68,233*
40.	Hedging derivatives	7,251	-	*7,251*
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478	-	*478*
60.	Tax liabilities	2,509	6	2,515
	a) current	*364*	*-*	*364*
	b) deferred	*2,145*	*6*	*2,151*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264	-	264
80.	Other liabilities	12,225	4	12,229
90.	Employee termination indemnities	1,410	-	1,410
100.	Allowances for risks and charges	6,016	1	6,017
	a) commitments and guarantees given	*535*	*-*	*535*
	b) post-employment benefits	*1,104*	*-*	*1,104*
	c) other allowances for risks and charges	*4,377*	*1*	*4,378*
110.	Technical reserves	82,926	-	82,926
120.	Valuation reserves	-878	-	-878
125.	Valuation reserves pertaining to insurance companies	417	-	417
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	7,656	-	7,656
160.	Share premium reserve	26,006	-	26,006
170.	Share capital	8,732	-	8,732
180.	Treasury shares (-)	-84	-	-84
190.	Minority interests (+/-)	386	150	536
200.	Net income (loss) (+/-)	7,316	-	7,316
Total liabilities and shareholders' equity		**794,097**	**431**	**794,528**

[a] The restatement refers to the entry of Morval Vonwiller Holding SA group companies in the Group.

Reconciliation between consolidated income statement as at 30 June 2017 (IFRS 9) and restated consolidated income statement as at 30 June 2017

(millions of euro)

		30.06.2017 (IFRS 9)	**Changes in the scope of consolidation** (a)	**30.06.2017** Restated
10.	Interest and similar income	5,196	1	5,197
	of which: interest income calculated using the effective interest rate method	*5,121*	*-*	*5,121*
20.	Interest and similar expense	-1,851	-	-1,851
30.	**Interest margin**	**3,345**	**1**	**3,346**
40.	Fee and commission income	4,496	14	4,510
50.	Fee and commission expense	-976	-2	-978
60.	**Net fee and commission income**	**3,520**	**12**	**3,532**
70.	Dividend and similar income	59	-	59
80.	Profits (Losses) on trading	306	2	308
90.	Fair value adjustments in hedge accounting	-3	-	-3
100.	Profits (Losses) on disposal or repurchase of:	255	1	256
	a) financial assets measured at amortised cost	*-18*	*-*	*-18*
	b) financial assets measured at fair value through other comprehensive income	*299*	*1*	*300*
	c) financial liabilities	*-26*	*-*	*-26*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-	-	-
	a) financial assets and liabilities designated at fair value	*-*	*-*	*-*
	b) other financial assets mandatorily measured at fair value	*-*	*-*	*-*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,719	-	1,719
120.	**Net interest and other banking income**	**9,201**	**16**	**9,217**
130.	Net losses/recoveries for credit risks associated with:	-1,581	-	-1,581
	a) financial assets measured at amortised cost	*-1,121*	*-*	*-1,121*
	b) financial assets measured at fair value through other comprehensive income	*-460*	*-*	*-460*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-2	-	-2
140.	Profits (Losses) on changes in contracts without derecognition	-	-	-
150.	**Net income from banking activities**	**7,618**	**16**	**7,634**
160.	Net insurance premiums	3,254	-	3,254
170.	Other net insurance income (expense)	-4,267	-	-4,267
180.	**Net income from banking and insurance activities**	**6,605**	**16**	**6,621**
190.	Administrative expenses:	-4,477	-13	-4,490
	a) personnel expenses	*-2,686*	*-9*	*-2,695*
	b) other administrative expenses	*-1,791*	*-4*	*-1,795*
200.	Net provisions for risks and charges	-1,951	1	-1,950
	a) commitments and guarantees given	*-*	*-*	*-*
	b) other net provisions	*-1,951*	*1*	*-1,950*
210.	Net adjustments to / recoveries on property and equipment	-166	-	-166
220.	Net adjustments to / recoveries on intangible assets	-236	-	-236
230.	Other operating expenses (income)	5,162	-	5,162
240.	**Operating expenses**	**-1,668**	**-12**	**-1,680**
250.	Profits (Losses) on investments in associates and companies subject to joint control	329	-	329
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	6	-	6
290.	**Income (Loss) before tax from continuing operations**	**5,272**	**4**	**5,276**
300.	Taxes on income from continuing operations	-21	-1	-22
310.	**Income (Loss) after tax from continuing operations**	**5,251**	**3**	**5,254**
320.	Income (Loss) after tax from discontinued operations	-	-	-
330.	**Net income (loss)**	**5,251**	**3**	**5,254**
340.	Minority interests	-13	-3	-16
350.	**Parent Company's net income (loss)**	**5,238**	**-**	**5,238**

[a] The restatement refers to the income statement results for the first six months of 2017 of the Morval Vonwiller Holding SA group companies.

Reconciliation between consolidated income statement as at 30 June 2018 and restated consolidated income statement as at 30 June 2018

(millions of euro)

		30.06.2018	Changes in the scope of consolidation (a)	30.06.2018 Restated
10.	Interest and similar income	5,244	-	5,244
	of which: interest income calculated using the effective interest rate method	*5,177*	-	*5,177*
20.	Interest and similar expense	-1,516	-	-1,516
30.	**Interest margin**	**3,728**	**-**	**3,728**
40.	Fee and commission income	4,978	6	4,984
50.	Fee and commission expense	-1,152	-1	-1,153
60.	**Net fee and commission income**	**3,826**	**5**	**3,831**
70.	Dividend and similar income	67	-	67
80.	Profits (Losses) on trading	290	1	291
90.	Fair value adjustments in hedge accounting	-18	-	-18
100.	Profits (Losses) on disposal or repurchase of:	417	-	417
	a) financial assets measured at amortised cost	*-28*	-	*-28*
	b) financial assets measured at fair value through other comprehensive income	*416*	-	*416*
	c) financial liabilities	*29*	-	*29*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	264	-	264
	a) financial assets and liabilities designated at fair value	*2*	-	*2*
	b) other financial assets mandatorily measured at fair value	*262*	-	*262*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,791	-	1,791
120.	**Net interest and other banking income**	**10,365**	**6**	**10,371**
130.	Net losses/recoveries for credit risks associated with:	-1,236	-	-1,236
	a) financial assets measured at amortised cost	*-1,233*	-	*-1,233*
	b) financial assets measured at fair value through other comprehensive income	*-3*	-	*-3*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-	-8
140.	Profits (Losses) on changes in contracts without derecognition	-5	-	-5
150.	**Net income from banking activities**	**9,116**	**6**	**9,122**
160.	Net insurance premiums	3,406	-	3,406
170.	Other net insurance income (expense)	-4,419	-	-4,419
180.	**Net income from banking and insurance activities**	**8,103**	**6**	**8,109**
190.	Administrative expenses:	-4,917	-6	-4,923
	a) personnel expenses	*-2,918*	*-4*	*-2,922*
	b) other administrative expenses	*-1,999*	*-2*	*-2,001*
200.	Net provisions for risks and charges	-30	-	-30
	a) commitments and guarantees given	*68*	-	*68*
	b) other net provisions	*-98*	-	*-98*
210.	Net adjustments to / recoveries on property and equipment	-181	-	-181
220.	Net adjustments to / recoveries on intangible assets	-274	-	-274
230.	Other operating expenses (income)	391	-	391
240.	**Operating expenses**	**-5,011**	**-6**	**-5,017**
250.	Profits (Losses) on investments in associates and companies subject to joint control	20	-	20
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	-	-	-
290.	**Income (Loss) before tax from continuing operations**	**3,112**	**-**	**3,112**
300.	Taxes on income from continuing operations	-916	-	-916
310.	**Income (Loss) after tax from continuing operations**	**2,196**	**-**	**2,196**
320.	Income (Loss) after tax from discontinued operations	-	-	-
330.	**Net income (loss)**	**2,196**	**-**	**2,196**
340.	Minority interests	-17	-	-17
350.	**Parent Company's net income (loss)**	**2,179**	**-**	**2,179**

[a] Income statement results for the first three months of 2018 of the Morval Vonwiller Holding SA group companies.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		30.06.2018	1.1.2018 Restated	CHANGES amount	%
10.	Cash and cash equivalents	6,928	9,447	-2,519	-26.7
20.	Financial assets measured at fair value through profit or loss	42,751	42,567	184	0.4
	a) financial assets held for trading	*39,908*	*39,654*	*254*	*0.6*
	b) financial assets designated at fair value	*209*	*214*	*-5*	*-2.3*
	c) other financial assets mandatorily measured at fair value	*2,634*	*2,699*	*-65*	*-2.4*
30.	Financial assets measured at fair value through other comprehensive income	61,840	59,960	1,880	3.1
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,229	152,582	-353	-0.2
40.	Financial assets measured at amortised cost	481,214	482,380	-1,166	-0.2
	a) due from banks	*70,277*	*72,217*	*-1,940*	*-2.7*
	b) loans to customers	*410,937*	*410,163*	*774*	*0.2*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	682	423	259	61.2
50.	Hedging derivatives	3,473	4,213	-740	-17.6
60.	Fair value change of financial assets in hedged portfolios (+/-)	-34	-204	-170	-83.3
70.	Investments in associates and companies subject to joint control	647	678	-31	-4.6
80.	Technical insurance reserves reassured with third parties	16	16	-	-
90.	Property and equipment	6,665	6,707	-42	-0.6
100.	Intangible assets	7,741	7,742	-1	-0.0
	of which:				
	- goodwill	*4,083*	*4,057*	*26*	*0.6*
110.	Tax assets	16,934	18,019	-1,085	-6.0
	a) current	*3,853*	*4,803*	*-950*	*-19.8*
	b) deferred	*13,081*	*13,216*	*-135*	*-1.0*
120.	Non-current assets held for sale and discontinued operations	3,609	627	2,982	
130.	Other assets	9,023	9,371	-348	-3.7
		-	-	-	
Total assets		**793,718**	**794,528**	**-810**	**-0.1**

(millions of euro)

	Liabilities and Shareholders' Equity	30.06.2018	1.1.2018 Restated	CHANGES amount	CHANGES %
10.	Financial liabilities measured at amortised cost	522,460	516,627	5,833	1.1
	a) due to banks	97,675	99,992	*-2,317*	*-2.3*
	b) due to customers	337,314	323,650	*13,664*	*4.2*
	c) securities issued	87,471	92,985	*-5,514*	*-5.9*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,413	1,312	101	7.7
20.	Financial liabilities held for trading	39,482	41,459	-1,977	-4.8
30.	Financial liabilities designated at fair value	4	3	1	33.3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	70,337	68,233	2,104	3.1
40.	Hedging derivatives	7,086	7,251	-165	-2.3
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	443	478	-35	-7.3
60.	Tax liabilities	2,121	2,515	-394	-15.7
	a) current	124	364	*-240*	*-65.9*
	b) deferred	1,997	2,151	*-154*	*-7.2*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	261	264	-3	-1.1
80.	Other liabilities	12,166	12,229	-63	-0.5
90.	Employee termination indemnities	1,290	1,410	-120	-8.5
100.	Allowances for risks and charges	5,586	6,017	-431	-7.2
	a) commitments and guarantees given	473	535	*-62*	*-11.6*
	b) post-employment benefits	1,141	1,104	*37*	*3.4*
	c) other allowances for risks and charges	3,972	4,378	*-406*	*-9.3*
110.	Technical reserves	79,842	82,926	-3,084	-3.7
120.	Valuation reserves	-1,366	-878	488	55.6
125.	Valuation reserves pertaining to insurance companies	3	417	-414	-99.3
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,351	7,656	5,695	74.4
160.	Share premium reserve	23,940	26,006	-2,066	-7.9
170.	Share capital	8,732	8,732	-	-
180.	Treasury shares (-)	-79	-84	-5	-6.0
190.	Minority interests (+/-)	364	536	-172	-32.1
200.	Net income (loss) (+/-)	2,179	7,316	-5,137	-70.2
	Total liabilities and shareholders' equity	**793,718**	**794,528**	**-810**	**-0.1**

Restated consolidated income statement

(millions of euro)

		30.06.2018	30.06.2017	CHANGES	
		Restated	Restated	**amount**	**%**
10.	Interest and similar income	5,244	5,197	47	0.9
	of which: interest income calculated using the effective interest rate method	5,177	5,121	56	1.1
20.	Interest and similar expense	-1,516	-1,851	-335	-18.1
30.	**Interest margin**	**3,728**	**3,346**	**382**	**11.4**
40.	Fee and commission income	4,984	4,510	474	10.5
50.	Fee and commission expense	-1,153	-978	175	17.9
60.	**Net fee and commission income**	**3,831**	**3,532**	**299**	**8.5**
70.	Dividend and similar income	67	59	8	13.6
80.	Profits (Losses) on trading	291	308	-17	-5.5
90.	Fair value adjustments in hedge accounting	-18	-3	15	
100.	Profits (Losses) on disposal or repurchase of:	417	256	161	62.9
	a) financial assets measured at amortised cost	-28	-18	10	55.6
	b) financial assets measured at fair value through other comprehensive income	416	300	116	38.7
	c) financial liabilities	29	-26	55	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	264	-	264	
	a) financial assets and liabilities designated at fair value	2	-	2	
	b) other financial assets mandatorily measured at fair value	262	-	262	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,791	1,719	72	4.2
120.	**Net interest and other banking income**	**10,371**	**9,217**	**1,154**	**12.5**
130.	Net losses/recoveries for credit risks associated with:	-1,236	-1,581	-345	-21.8
	a) financial assets measured at amortised cost	-1,233	-1,121	112	10.0
	b) financial assets measured at fair value through other comprehensive income	-3	-460	-457	-99.3
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-2	6	
140.	Profits (Losses) on changes in contracts without derecognition	-5	-	5	
150.	**Net income from banking activities**	**9,122**	**7,634**	**1,488**	**19.5**
160.	Net insurance premiums	3,406	3,254	152	4.7
170.	Other net insurance income (expense)	-4,419	-4,267	152	3.6
180.	**Net income from banking and insurance activities**	**8,109**	**6,621**	**1,488**	**22.5**
190.	Administrative expenses:	-4,923	-4,490	433	9.6
	a) personnel expenses	-2,922	-2,695	227	8.4
	b) other administrative expenses	-2,001	-1,795	206	11.5
200.	Net provisions for risks and charges	-30	-1,950	-1,920	-98.5
	a) commitments and guarantees given	68	-	68	
	b) other net provisions	-98	-1,950	-1,852	-95.0
210.	Net adjustments to / recoveries on property and equipment	-181	-166	15	9.0
220.	Net adjustments to / recoveries on intangible assets	-274	-236	38	16.1
230.	Other operating expenses (income)	391	5,162	-4,771	-92.4
240.	**Operating expenses**	**-5,017**	**-1,680**	**3,337**	
250.	Profits (Losses) on investments in associates and companies subject to joint control	20	329	-309	-93.9
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	-	6	-6	
290.	**Income (Loss) before tax from continuing operations**	**3,112**	**5,276**	**-2,164**	**-41.0**
300.	Taxes on income from continuing operations	-916	-22	894	
310.	**Income (Loss) after tax from continuing operations**	**2,196**	**5,254**	**-3,058**	**-58.2**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**2,196**	**5,254**	**-3,058**	**-58.2**
340.	Minority interests	-17	-16	1	6.3
350.	**Parent Company's net income (loss)**	**2,179**	**5,238**	**-3,059**	**-58.4**

Reconciliation between consolidated restated financial statements and reclassified consolidated financial statements

Reconciliation between consolidated restated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Assets			30.06.2018	1.1.2018 Restated
Due from banks			**69,797**	**71,685**
	Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	69,795	71,671
	Caption 20a (partial)	Financial assets held for trading - Due from banks	-	-
	Caption 20b (partial)	Financial assets designated at fair value - Due from banks	-	-
	Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	2	14
	Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers			**399,859**	**399,539**
Loans to customers measured at amortised cost			***399,238***	***399,152***
	Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	393,858	393,252
	Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,380	5,900
Loans to customers designated at fair value through other comprehensive income and through profit or loss			***621***	***387***
	Caption 20a (partial)	Financial assets held for trading - Loans to customers	31	-
	Caption 20b (partial)	Financial assets designated at fair value - Loans to customers	-	-
	Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Loans to customers	560	387
	Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	30	-
Financial assets measured at amortised cost which do not constitute loans			**12,181**	**11,557**
	Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	482	546
	Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	11,699	11,011
Financial assets designated at fair value through profit or loss			**42,158**	**42,166**
	Caption 20a (partial)	Financial assets held for trading	39,877	39,654
	Caption 20b (partial)	Financial assets designated at fair value - Debt securities	209	214
	Caption 20c (partial)	Other financial assets mandatorily measured at fair value	2,072	2,298
Financial assets designated at fair value through other comprehensive income			**61,811**	**59,960**
	Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	61,811	59,960
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39			**152,229**	**152,582**
	Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,229	152,582
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39			**682**	**423**
	Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	682	423
Investments in associates and companies subject to joint control			**647**	**678**
	Caption 70	Investments in associates and companies subject to joint control	647	678
Property, equipment and intangible assets			**14,406**	**14,449**
	Caption 90	Property and equipment	6,665	6,707
	Caption 100	Intangible assets	7,741	7,742
Tax assets			**16,934**	**18,019**
	Caption 110	Tax assets	16,934	18,019
Non-current assets held for sale and discontinued operations			**3,609**	**627**
	Caption 120	Non-current assets held for sale and discontinued operations	3,609	627
Other assets			**19,405**	**22,843**
	Caption 10	Cash and cash equivalents	6,928	9,447
	Caption 50	Hedging derivatives	3,473	4,213
	Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	-34	-204
	Caption 80	Technical insurance reserves reassured with third parties	16	16
	Caption 130	Other assets	9,023	9,371
Total assets			**793,718**	**794,528**

(millions of euro)

Liabilities		30.06.2018	1.1.2018 Restated
Due to banks at amortised cost		**97,675**	**99,992**
	Caption 10 a) Financial liabilities measured at amortised cost - Due to banks	97,675	99,992
Due to customers at amortised cost and securities issued		**424,785**	**416,635**
	Caption 10 b) Financial liabilities measured at amortised cost - Due to customers	337,314	323,650
	Caption 10 c) Financial liabilities measured at amortised cost - Securities issued	87,471	92,985
Financial liabilities held for trading		**39,482**	**41,459**
	Caption 20 Financial liabilities held for trading	39,482	41,459
Financial liabilities designated at fair value		**4**	**3**
	Caption 30 Financial liabilities designated at fair value	4	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**1,413**	**1,312**
	Caption 15 Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,413	1,312
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39		**70,337**	**68,233**
	Caption 35 Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	70,337	68,233
Tax liabilities		**2,121**	**2,515**
	Caption 60 Tax liabilities	2,121	2,515
Liabilities associated with non-current assets held for sale and discontinued operations		**261**	**264**
	Caption 70 Liabilities associated with non-current assets held for sale and discontinued operations	261	264
Other liabilities		**19,695**	**19,958**
	Caption 40 Hedging derivatives	7,086	7,251
	Caption 50 Fair value change of financial liabilities in hedged portfolios (+/-)	443	478
	Caption 80 Other liabilities	12,166	12,229
Technical reserves		**79,842**	**82,926**
	Caption 110 Technical reserves	79,842	82,926
Allowances for risks and charges		**6,876**	**7,427**
	Caption 90 Employee termination indemnities	1,290	1,410
	Caption 100 a) Allowances for risks and charges - Commitments and guarantees given	473	535
	Caption 100 b) Allowances for risks and charges - Post-employment benefits	1,141	1,104
	Caption 100 c) Allowances for risks and charges – Other allowances for risks and charges	3,972	4,378
Share capital		**8,732**	**8,732**
	Caption 170 Share capital	8,732	8,732
Reserves		**37,212**	**33,578**
	Caption 130 Redeemable shares	-	-
	Caption 150 Reserves	13,351	7,656
	Caption 160 Share premium reserve	23,940	26,006
	- Caption 180 Treasury shares	-79	-84
Valuation reserves		**-1,366**	**-878**
	Caption 120 Valuation reserves	-1,366	-878
Valuation reserves pertaining to insurance companies		**3**	**417**
	Caption 125 Valuation reserves pertaining to insurance companies	3	417
Equity instruments		**4,103**	**4,103**
	Caption 140 Equity instruments	4,103	4,103
Minority interests		**364**	**536**
	Caption 190 Minority interests	364	536
Net income (loss)		**2,179**	**7,316**
	Caption 200 Net income (loss) (+/-)	2,179	7,316
Total liabilities and shareholders' equity		**793,718**	**794,528**

Reconciliation between consolidated restated income statement and reclassified consolidated income statement

(millions of euro)

Captions		30.06.2018 Restated	30.06.2017 Restated
Net interest income		**3,694**	**3,621**
Caption 30	Interest margin	3,728	3,346
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	61	2
+ Caption 80 (partial)	Components of the profits (losses) on trading relating to net interest	-47	2
+ Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-	340
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-21	-22
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-3	-
- Caption 30 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-24	-47
Net fee and commission income		**4,004**	**3,763**
Caption 60	Net fee and commission income	3,831	3,532
- Caption 60 (partial)	Contribution of insurance business	195	245
- Caption 60 (partial)	Components of net fee and commission income related to profits (losses) on financial assets and liabilities designated at fair value	-	6
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-22	-20
Income from insurance business		**575**	**523**
Caption 160	Net insurance premiums	3,406	3,254
Caption 170	Other net insurance income (expense)	-4,419	-4,267
- Caption 170 (partial)	Other net insurance income (expense) - changes in technical reserves due to impairment of securities designated at fair value through other comprehensive income	-6	-2
+ Caption 60 (partial)	Contribution of insurance business	-195	-245
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,791	1,719
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-	-
+ Caption 30 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	24	47
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-26	17
Profits (Losses) on financial assets and liabilities designated at fair value		**1,094**	**594**
+ Caption 80	Profits (Losses) on trading	291	308
+ Caption 90	Fair value adjustments in hedge accounting	-18	-3
+ Caption 110 a)	Profits (Losses) on other financial assets and liabilities designated at fair value through profit or loss (a) financial assets and liabilities designated at fair value	2	-
+ Caption 110 b)	Profits (Losses) on other financial assets and liabilities designated at fair value through profit or loss (b) other financial assets mandatorily designated at fair value	262	-
+ Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets designated at fair value through other comprehensive income	416	300
+ Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	29	-26
+ Caption 60 (partial)	Components of net fee and commission income related to profits (losses) on financial assets and liabilities measured at fair value	-	-6
+ Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	56	43
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk - Financial assets measured at amortised cost (specific credit positions related to derivatives)	-	-
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	47	-2
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	26	-17
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-6	-
- Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily designated at fair value (Charges concerning the banking industry)	-1	-
+ Caption 190 b) (partial)	Other administrative expenses (storage costs)	-	-3
+ Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	-10	-
Other operating income (expenses)		**49**	**72**
Caption 70	Dividend and similar income	67	59
+ Caption 230	Other operating expenses (income)	391	5,162
- Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-56	-43
- Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition - Charges for integration)	-	-1,285
- Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition)	-	-3,500
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-3	-5
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-368	-350
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	1	4
- Caption 230 (partial)	Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)	-1	-5
+ Caption 230 (partial)	Other operating expenses (income)	-	-3
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	18	38
Operating income		**9,416**	**8,573**

(millions of euro)

Captions		30.06.2018 Restated	30.06.2017 Restated
Personnel expenses		**-2,895**	**-2,633**
Caption 190 a)	Personnel expenses	-2,922	-2,695
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	6	40
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	21	22
Other administrative expenses		**-1,311**	**-1,220**
Caption 190 b)	Other administrative expenses	-2,001	-1,795
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	8	22
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	289	175
- Caption 190 b) (partial)	Other administrative expenses (storage costs)	-	3
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	22	20
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	368	350
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	3	5
Adjustments to property, equipment and intangible assets		**-404**	**-374**
Caption 210	Net adjustments to / recoveries on property and equipment	-181	-166
+ Caption 220	Net adjustments to / recoveries on intangible assets	-274	-236
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	13	5
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	14	9
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	8	-
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	16	14
Operating costs		**-4,610**	**-4,227**
Operating margin		**4,806**	**4,346**
Net adjustments to loans		**-1,177**	**-1,432**
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-50	-18
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	6	-1
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Securities held to maturity	-	0
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-1,248	-1,121
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others) - Effect of purchase price allocation	16	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Loans	-	-
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges concerning the banking system)	-	48
- Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-	-340
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk - Financial assets measured at amortised cost (specific credit positions related to derivatives)	-	-
Caption 140	Profits /losses on changes in contracts without derecognition	-5	-
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	68	-
+Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	36	-
Other net provisions and net impairment losses on other assets		**-86**	**-59**
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	-1	-
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	-	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Debt securities	-3	-460
- Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)	-	449
Caption 135	Net losses/Recoveries pertaining to insurance companies in accordance with IAS 39	-8	-2
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-98	-1,950
+ Caption 170 (partial)	Other net insurance income (expense) - changes in technical reserves due to impairment of securities designated at fair value through other comprehensive income	6	2
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	3	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Investments for the stability of the banking system)	-	-
- Caption 135	Net losses/Recoveries pertaining to insurance companies in accordance with IAS 39	-	-
- Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	10	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (charges for integration)	14	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Public contribution for Venetian Banks acquisition - Charges for integration)	-	1,913
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-8	-
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-1	-4
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-	-7

(millions of euro)

Captions		30.06.2018 Restated	30.06.2017 Restated
Other income (expenses)		**10**	**3,813**
Caption 100 a (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	5	1
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	11	-
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) Effect of purchase price allocation	-9	-
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	20	329
Caption 280	Profits (Losses) on disposal of investments	-	6
+ Caption 230 (partial)	Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)	1	5
- Caption 230 (partial)	Other operating expenses (income)	-	3
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-18	-38
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-	7
+ Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition)	-	3,500
- Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	-
Income (loss) from discontinued operations		-	-
Caption 320	Income (Loss) after tax from discontinued operations	-	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-	-
Gross income (loss)		**3,553**	**6,668**
Taxes on income		**-1,052**	**-890**
Caption 300	Taxes on income from continuing operations	-916	-22
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-	-
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-20	-23
- Caption 300 (partial)	Taxes on income from continuing operations (Public contribution for Venetian Banks acquisition - Charges for integration - tax effect)	-	-628
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-28	-5
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-88	-51
- Caption 300 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)	-	-148
- Caption 300 (partial)	Taxes on income from continuing operations (Losses/recoveries on loans)	-	-13
Charges (net of tax) for integration and exit incentives		**-35**	**-53**
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-6	-40
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-8	-22
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	-14	-
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment - Charges for integration)	-13	-5
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment - Charges for integration)	-14	-9
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	20	23
Effect of purchase price allocation (net of tax)		**-70**	**-11**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-61	-2
+ Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	6	-
+Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-36	-
+Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others) - Effect of purchase price allocation	9	-
+ Caption 220 (partial)	Adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-16	-14
+ Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	28	5
Levies and other charges concerning the banking industry (net of tax)		**-200**	**-460**
+ Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	1	-
+Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges concerning the banking industry)	-	-48
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)	-	-449
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-289	-175
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	88	51
+ Caption 300 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)	-	148
- Caption 300 (partial)	Taxes on income from continuing operations (Losses/recoveries on loans)	-	13
Impairment (net of tax) of goodwill and other intangible assets		-	-
Caption 270	Goodwill impairment	-	-
Minority interests		**-17**	**-16**
Caption 340	Minority interests	-17	-16
Net income (loss)		**2,179**	**5,238**

Glossary

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of “prime” category, but which, due to various factors such as LTV ratio, documentation provided, borrower’s income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as “Alt-A”.

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

Other related parties – close relatives
An individual’s “close relatives” comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual’s non-separated spouse/domestic partner and the individual’s children, his/her spouse’s/domestic partner’s children, and the individual’s or his/her spouse’s/domestic partner’s dependents.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 Capital (AT1). In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

Discounting
Process of determining the present value of a payment or payment flows to be received in the future

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

AUM Assets under management
Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers

β
The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

Back office
The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

Backtesting
Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to “proprietary” trading.

Basis swap
Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

Best practice
It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the buying and selling price of a given financial instrument or set of financial instruments.

Bookrunner
See Lead manager and Joint lead manager.

Brand name
IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand” is used in accounting principles with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

Budget
Forecast of cost and revenue performance of a company over a period of time.

Business combinations
In accordance with IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

Business model
The business model within which financial assets are managed.
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, the CAGR is calculated as follows: (Ending value/Beginning value)^(1/n) -1.

Capital Asset Pricing Model (CAPM)
An economic model for determining the “opportunity cost” i.e. the amount of income for the period necessary to remunerate the cost of capital.

Capital structure
It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:
Equity Tranche (B): the riskiest portion of the portfolio, it is also known as “first loss” and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.

Mezzanine Tranche (B): the tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.
Senior/Supersenior Tranche (B): the tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Captive
Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

Cash flow hedge
Coverage against exposure to variability in cash flows associated with a particular risk.

Cash-generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash management
A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

Categories of financial instruments provided for by IAS 39
Financial assets “held for trading”, which includes the following: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking, and assets that the entity decides in any case to measure at fair value, with fair value changes recognized in profit and loss; investments “held to maturity”, non-derivative assets with fixed term and fixed or determinable payments, that an entity intends and is able to hold to maturity; “Loans and receivables”, non-derivative financial assets with fixed or determinable payments not quoted in an active market; financial assets “available for sale”, specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.

Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

CLO - Collateralised Loan Obligation
CDOs backed by a portfolio of corporate loans.

CMBS - Commercial Mortgage-Backed Securities
Debt instruments backed by mortgages on commercial real estate.

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

Commercial paper
Short-term notes issued in order to collect funds from third-party underwriters as an alternative to other forms of indebtedness.

Consumer ABS
ABS whose collateral is made up of consumer credits.

Core Business
Main area of business on which company's strategies and policies are focused.

Core deposits
"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which it pays less than the market interest rate.

Common Equity Tier 1 Ratio (CET1 Ratio)
The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

Corporate
Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

Cost/income ratio
Economic indicator consisting of the ratio of operating costs to net operating income.

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

Covenant
A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

Coverage ratio
It represents the percentage coverage of the value adjustment with respect to the gross exposure.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CPPI (Constant Proportion Insurance Portfolio)
A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
“Past due exposures” are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank’s risk appetite.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

CRP (Country Risk Premium)
Country risk premium; it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a particular country (namely the risk associated with financial, political and monetary instability).

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

Reclassification date
The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets

Default
Declared inability to honour one’s debts and/or make the relevant interest payments.

Delinquency
Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

Delta
Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

Delta-Gamma-Vega (DGV VaR
Parametric model for calculation of the VaR, able to assess both linear and non-linear risk factors.

Embedded derivatives
Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

Desk
It usually designates an operating unit dedicated to a particular activity.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to positions on or off balance sheet, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

EDF – Expected Default Frequency
Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

Embedded value
A measure of the underlying value of a life insurance company. It is the sum of the company’s adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

Eonia (Euro overnight index average)
Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the euro area.

Equity hedge / long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivative contracts involving securities or market indices.

Equity origination
Increase of a company’s risk capital achieved by floating a new issue of stock.

ERP (equity risk premium)
Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected Credit Losses
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-Month Expected Loss
Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fair Value Option (FVO)
The Fair Value Option is an option for classifying a financial instrument.
When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

"G" factor ("g" growth rate)
It is the factor used for perpetuity projection of cash flows in order to calculate "Terminal value".

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

FIFO: First In First Out –
Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See "Forwards".

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

FVTOCI: Fair Value Through Other Comprehensive Income –
Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders' equity) and not through profit or loss.

FVTPL: Fair Value Through Profit and Loss –
Method of recognition of changes in the fair value of financial assets through profit or loss

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Grandfathering
The new composition of own funds under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under Basel 3, will be gradually eliminated (referred to as the grandfathering period).

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge fund
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELs – Home Equity Loans
Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor’s considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

HY CBO – High-Yield Collateralised Bond Obligation
CDOs with collateral represented by High-Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)
The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP (Internal Capital Adequacy Assessment Process)
The “Second Pillar” provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement (“First Pillar”), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IFRIC (International Financial Reporting Interpretations Committee)
A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Deferred tax (tax liabilities or assets)
Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.
Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:
(a) deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.
Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.
There are two types of temporary difference:
(d) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or

(e) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

Significant increase in credit risk "SICR"
Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:

- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
- exposures are determined to be of higher credit risk and subject to closer monitoring;
- exposures are more than 30 days past due, used as a backstop rather than a primary driver

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

CMBX index
The same as the ABX index, the only difference being that the reference entities are CMBSs.

Internal dealing
Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investment property
Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

Investment grade
Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor's index).

IRS – Interest Rate Swap
A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

Joint venture
Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction, it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.

Ke – g
Difference between the discounting rate for cash flows and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

Lambda (λ)
Coefficient that measures the assessed item's specific exposure to country risk. In the model used by Intesa Sanpaolo, it is estimated to be 1, in that it is presumed that it is necessary to vary the country's risk level.

LCRE: Low Credit Risk Exemption –
Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date

LDA - Loss Distribution Approach
Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner Lead bank of a bond issue syndicate.
The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Loss Given Default (LGD)
It indicates the estimated loss rate in the event of borrower default.

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios’ exposure to market volatility.

Mark-down
Difference between the 1-month Euribor and interest rates on household and business current accounts.

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for

issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

Multistrategy / Funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

NAV - Net Asset Value
The market value of one share of the fund's managed assets.

Non-performing
Term generally referring to loans for which payments are overdue.

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

Expected credit losses
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Lifetime expected loss
Expected credit losses that result from all possible default events over the expected life of a financial instrument

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

POCI: Purchased or Originated Credit-Impaired Assets – *Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3*

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See "Syndicated lending".

Held for trading
A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund’s manager with the utmost confidentiality. The Prime Broker also acts as the fund’s lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund’s risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund’s cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower’s history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

One-year Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

Lifetime PD
The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

PV01
Measures the price value change of a financial asset following a one basis point shift in the yield curve.

Indirect customer deposits
The holding of third parties’ securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company’s financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Credit risk
The risk that an unexpected change in a counterparty’s creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank’s exposure.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Operational risk
The risk of incurring losses due to inadequacy or failures of processes, human resources or 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 reputation risks are not included.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on ten-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

Risk Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Senior/Super senior tranche
In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

SGR (Società di gestione del risparmio)
Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

SPE/SPV
Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Speculative grade
Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor’s index).

SPPI TEST
One of the two classification drivers (the other is the “business model”) that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as “basic lending arrangements” in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stage 1
Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

Stage 2
Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial Instruments.

Stage 3
Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial Instruments.

Stakeholders
Subjects who, acting in different capacities, interact with the firm's activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

Stock options
Term used to indicate the right granted to company managers to purchase the company's shares at a certain price (strike price).

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Structured export finance
Structured finance transactions in the goods and services export sector.

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life
- goodwill acquired in a business combination
- any asset, if there is any indication of impairment losses.

Tier 1
Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

Tier 1 ratio
Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

Fundamental Valuation
Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega
Coefficient that measures the sensitivity of an option's value in relation to a change in or underestimation of volatility.

Vega01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

Expected life
This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank’s exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional ‘maturity factor’ may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

Warrant
Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Waterfall
Characteristic of a CDO's cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

Wealth management
See "Asset management".

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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GALLERIE D'ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d'Italia project, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities creating a unique museum network.

Set in an architectural context of great value, **Gallerie d'Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, along with a collection representative of twentieth-century Italian art. **Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza** holds the most important western collection of Russian icons, examples of eighteenth-century Veneto art, and a collection of Attic and Magna Graecia pottery.

Gallerie d'Italia - Palazzo Zevallos Stigliano in Naples houses The *Martyrdom of Saint Ursula*, Caravaggio's last documented painting, as well as a collection of over one hundred and twenty artworks representative of Neapolitan artistic output from the early seventeenth century to the beginning of the twentieth century.

Cover photo:

CARLO BRANCACCIO (Naples 1861–1920)
Napoli, Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression c. 1888-1889
oil on canvas, 40 x 80 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples

Napoli, *Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression* by Carlo Brancaccio depicts an outdoor daily-life scene with a lively narrative style. The artist is particularly renowned for his radiant depictions of the most famous streets and sites in Naples, as well as for his seascapes and landscapes.

This picture is part of the permanent collection on display at Gallerie d'Italia - Palazzo Zevallos Stigliano, Intesa Sanpaolo's museum venue in Via Toledo, Naples. This collection of nineteenth-century paintings offers a remarkable overview of landscape painting, a genre that experienced an incredible season in Naples, on a par with the most advanced figurations developed in the rest of Europe.