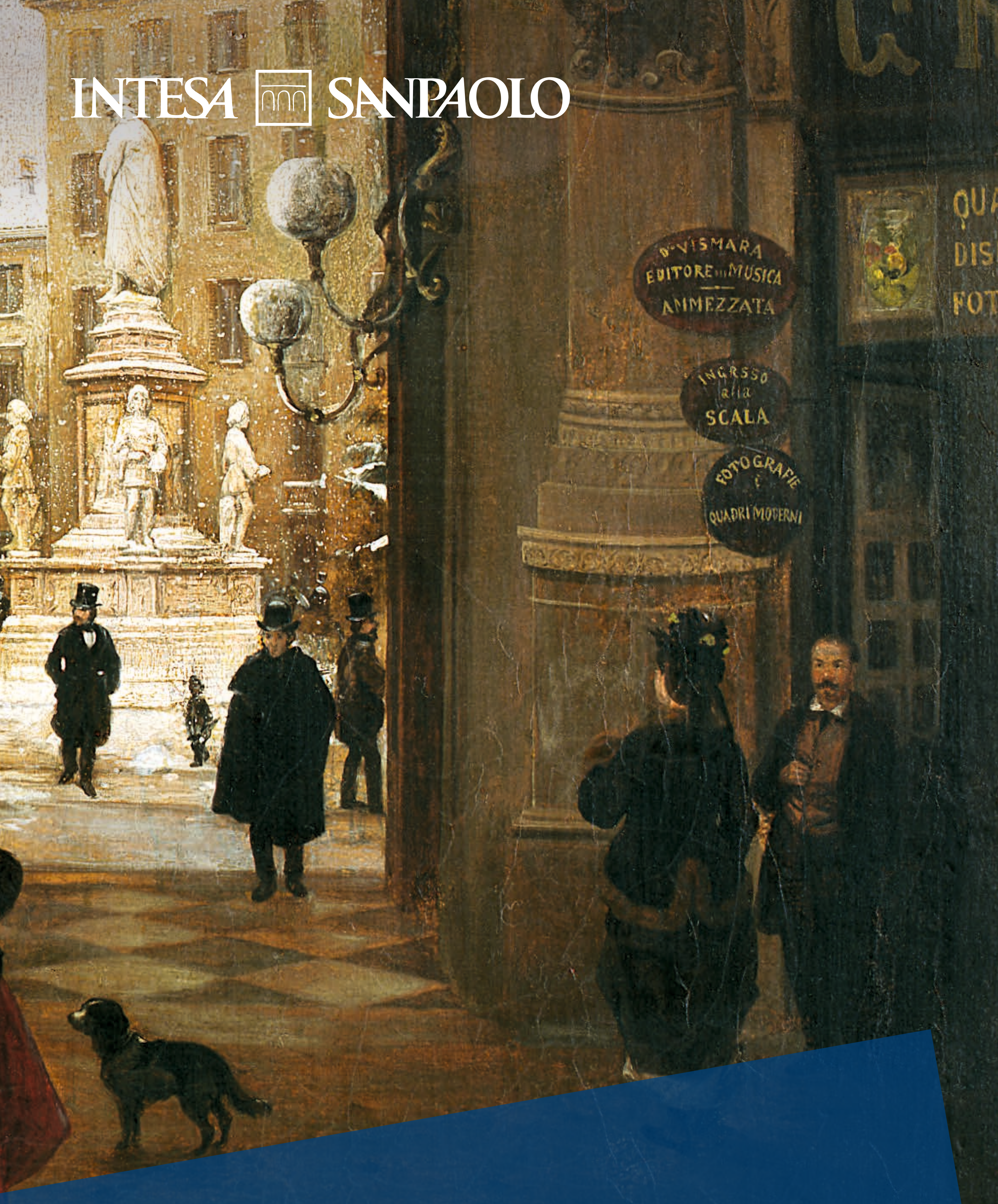
INTESA SANPAOLO



Interim Statement as at 30 September 2019

Interim Statement as at 30 September 2019

Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 9,085,663,010.32 Torino Company Register and Fiscal Code No. 00799960158 "Intesa Sanpaolo" VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group "Intesa Sanpaolo" included in the National Register of Banking Groups.

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INTESA SANPAOLO

BANCA 5 LA BANCA A PORTATA DI MANO Gruppo INTESA SANPAOLO

BANCA IMI

FIDEURAM INTESA SANPAOLO PRIVATE BANKING

MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,061	Fideuram	94
	Mediocredito Italiano	4
	Banca IMI	1
	Banca 5	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
897	Fideuram	56
	Mediocredito Italiano	2

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
751	Fideuram	42
	Mediocredito Italiano	2
	Banca IMI	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
641	Fideuram	26
	Mediocredito Italiano	2

ISLANDS

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
233	Fideuram	10
	Mediocredito Italiano	1

Figures as at 30 September 2019

Product Companies

INTESA SANPAOLO VITA · FIDEURAM VITA · INTESA SANPAOLO ASSICURA

Bancassurance and Pension Funds

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Industrial credit, Leasing and Factoring

EURIZON ASSET MANAGEMENT

Asset Management

SIREF FIDUCIARIA

Fiduciary Services

The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

ALEXBANK بنك الإسكندرية | BANCA IMI | BANCA INTESA | BANCA INTESA Beograd
CIB BANK | EXIMBANK | FIDEURAM BANK LUXEMBOURG | FIDEURAM INTESA SANPAOLO PRIVATE BANKING
INTESA SANPAOLO BANK Albania | INTESA SANPAOLO BANK LUXEMBOURG | INTESA SANPAOLO BANK Romania | INTESA SANPAOLO BANK
INTESA SANPAOLO BANKA Bosna i Hercegovina | INTESA SANPAOLO BANK IRELAND | INTESA SANPAOLO BRASIL SA | INTESA SANPAOLO PRIVATE BANK SUISSE Morval
PRAVEX BANK | PRIVREDNA BANKA ZAGREB | VÚB BANKA

AMERICA

Direct Branches	Representative Offices
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

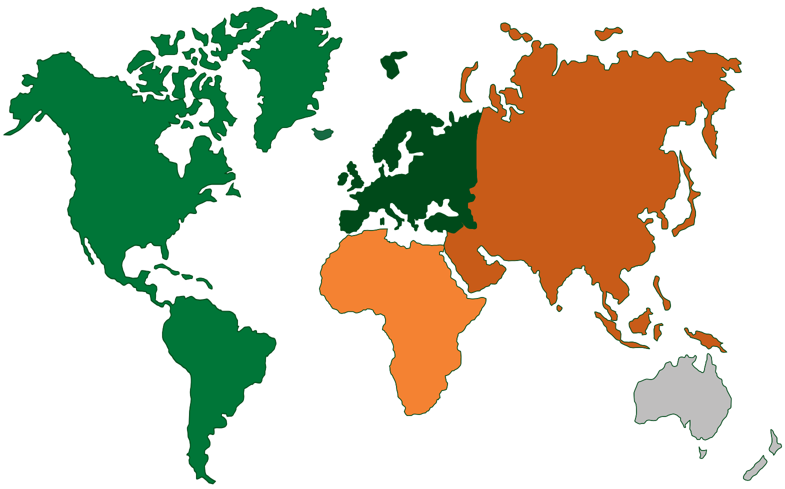
Representative Offices
Sydney

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	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	35
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	53
Croatia	Privredna Banka Zagreb	188
Czech Republic	VUB Banka	1
Hungary	CIB Bank	64
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram Bank Luxembourg	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania	Intesa Sanpaolo Bank Romania	34
Russian Federation	Banca Intesa	29
Serbia	Banca Intesa Beograd	156
Slovakia	VUB Banka	192
Slovenia	Intesa Sanpaolo Bank	49
Switzerland	Intesa Sanpaolo Private Bank (Suisse) Morval	2
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex Bank	45
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Bank (Suisse) Morval	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	175

Figures as at 30 September 2019

(1) European Regulatory & Public Affairs

Product Companies

CONSUMER FINANCE HOLDING | PBZ CARD

Consumer Credit, E-money and Payment Systems

CIB LEASING | INTESA LEASING Beograd | PBZ LEASING | VÚB LEASING

Leasing

EURIZON ASSET MANAGEMENT | FIDEURAM ASSET MANAGEMENT IRELAND | INTESA SANPAOLO LIFE | VÚB ASSET MANAGEMENT | 意才财富 YI TSAI WEALTH 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	Franco CERUTI Anna GATTI Corrado GATTI (*) Giovanni GORNO TEMPINI Rossella LOCATELLI Maria MAZZARELLA Fabrizio MOSCA (*) Milena Teresa MOTTA (*) Luciano NEBBIA Bruno PICCA Alberto Maria PISANI (**) Livia POMODORO Maria Alessandra STEFANELLI Guglielmo WEBER Daniele ZAMBONI Maria Cristina ZOPPO (*)
Manager responsible for preparing the company's financial reports	Fabrizio DABBENE
Independent Auditors	KPMG S.p.A.

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

Introduction

As is known, Legislative Decree 25 of 15 February 2016, which implemented the Transparency Directive (2013/50/EU), eliminated the obligation to publish interim statements and gave Consob the option of establishing any additional disclosure obligations with respect to the annual and half-yearly reports. By Resolution 19770 dated 26 October 2016, Consob, pursuant to regulatory delegation provided for in said Decree, approved the changes to the Issuers' Regulation on periodic additional financial disclosure, which have applied since 2 January 2017.
Under these regulations, listed companies have the right to select whether or not to publish periodic additional financial disclosure.
In announcing to the market the 2019 financial calendar, Intesa Sanpaolo confirmed that, pursuant to Art. 65-Bis and Art. 82-Ter of the Issuers' Regulation, it intends to disclose – on a voluntary basis – financial information as at 31 March and 30 September of each financial year, in addition to the annual report and half-yearly reports. This information consists of interim statements approved by the Board of Directors.
As illustrated in detail in the chapter "Criteria for the preparation of the Interim Statement", the Interim Statement as at 30 September 2019 has been prepared, in consolidated form, in compliance with the recognition and measurement criteria required by 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 as provided for by Community Regulation 1606 of 19 July 2002. In particular, the first-time adoption of IFRS 16 - Leases from 1 January 2019 should be noted.
The Interim Statement contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the Report on operations. It is also complemented by information on significant events which occurred during the period.
In support of the comments on the results, the Interim Statement also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments.
The consolidated financial statements are subject to a limited review by the Independent Auditors KPMG for the sole purpose of issuing the certification required by Art. 26 (2) of European Union Regulation no. 575/2013 and European Central Bank Decision no. 2015/656.

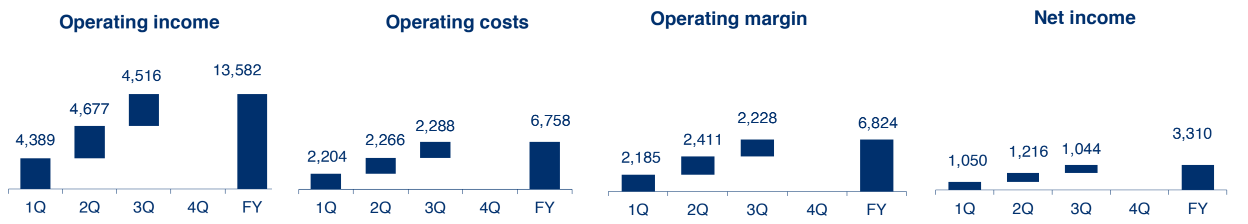
Overview of the nine months of 2019

Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)	30.09.2019	30.09.2018	Changes amount	Changes %
Net interest income	5,258	5,535	-277	-5.0
Net fee and commission income	5,865	6,001	-136	-2.3
Income from insurance business	876	846	30	3.5
Profits (Losses) on financial assets and liabilities designated at fair value	1,569	1,265	304	24.0
Operating income	13,582	13,691	-109	-0.8
Operating costs	-6,758	-6,930	-172	-2.5
Operating margin	6,824	6,761	63	0.9
Net adjustments to loans	-1,396	-1,696	-300	-17.7
Net income (loss)	3,310	3,012	298	9.9

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

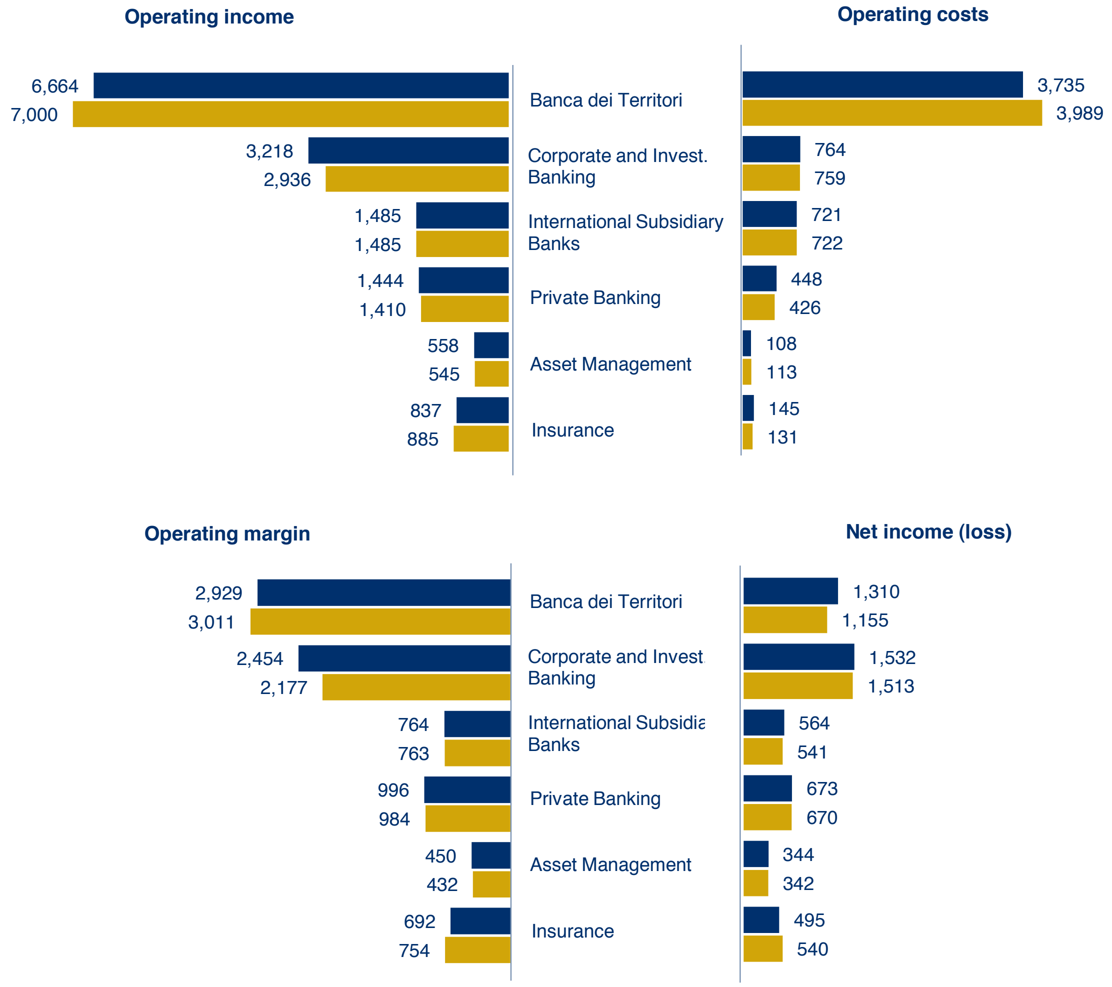
Quarterly development of main consolidated income statement figures (millions of euro)



30.09.2019

30.09.2018

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



(*) Excluding Corporate Centre

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

Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)	30.09.2019	01.01.2019	**Changes** amount	**Changes** %
Financial assets	153,698	116,160	37,538	32.3
Financial assets pertaining to insurance companies measured pursuant to IAS 39	167,604	150,498	17,106	11.4
Loans to customers	395,193	393,550	1,643	0.4
Total assets	848,718	789,316	59,402	7.5
Direct deposits from banking business	426,662	415,082	11,580	2.8
Direct deposits from insurance business and technical reserves	164,416	149,358	15,058	10.1
Indirect deposits:	523,707	495,809	27,898	5.6
of which: Assets under management	351,663	330,593	*21,070*	*6.4*
Shareholders' equity	55,229	54,024	1,205	2.2

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

	Loans to customers 30.09.2019	**Loans to customers** 01.01.2019	**Direct deposits from banking business** 30.09.2019	**Direct deposits from banking business** 01.01.2019
Banca dei Territori	203,311	211,491	194,916	191,588
Corporate and Invest. Banking	117,451	110,642	103,906	102,449
International Subsidiary Banks	33,616	31,538	42,765	39,384
Private Banking	9,464	9,530	37,692	32,103
Asset Management	245	228	8	6
Insurance	-	-	-	-

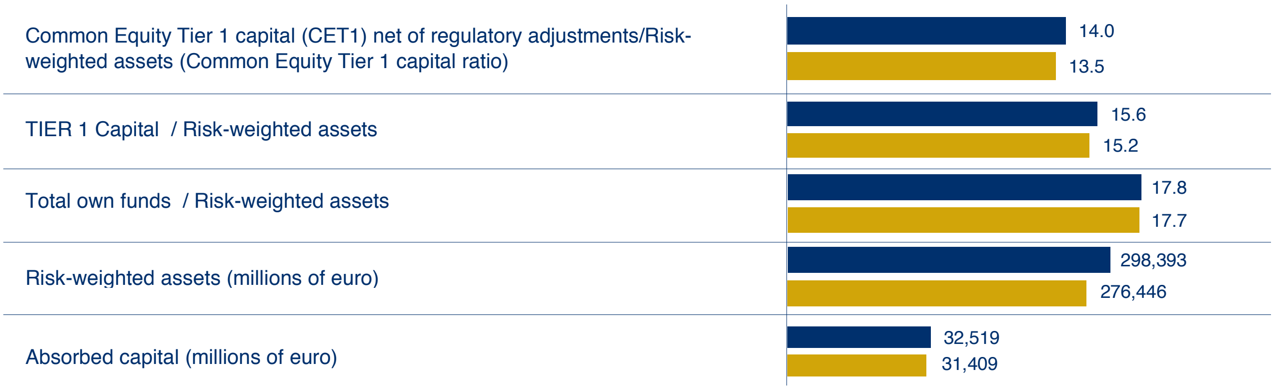
(*) Excluding Corporate Centre

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

30.09.2019 (blue bars)
01.01.2019 (gold bars)

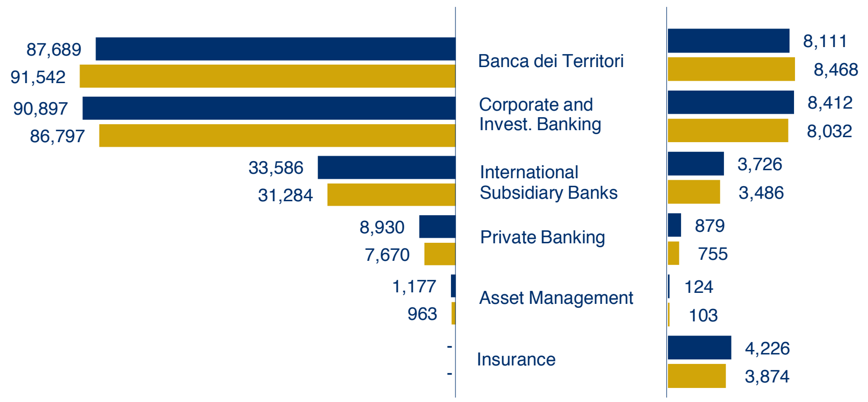
Alternative performance measures and other measures

Consolidated capital ratios (%)



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

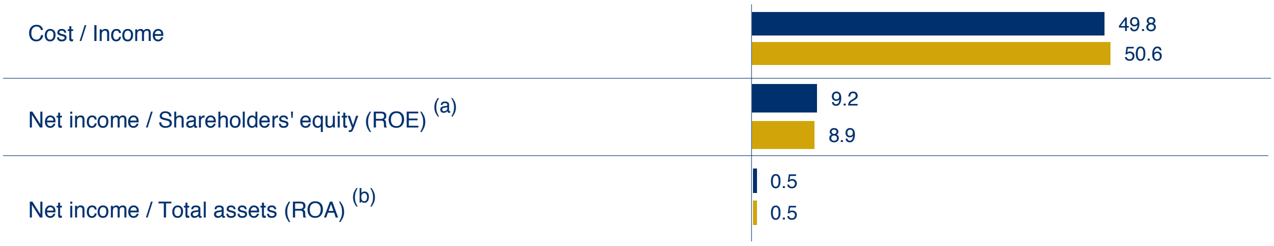
Absorbed capital by business area (*)
(millions of euro)



(*) Excluding Corporate Centre

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

Consolidated profitability ratios (%)



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

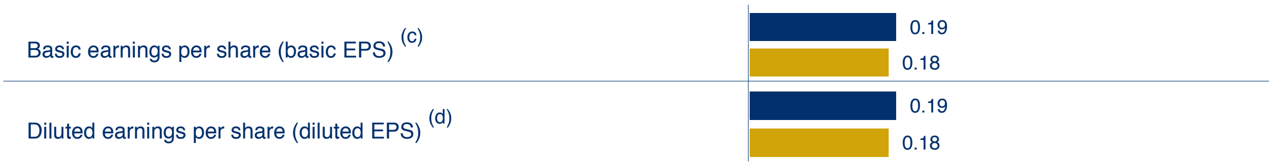
(a) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period. The figure for the period has been annualised.

(b) Ratio between net income and total assets. The figure for the period has been annualised.

30.09.2019

30.09.2018

Earnings per share (euro)



Consolidated risk ratios (%)

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

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

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

Operating structure	30.09.2019	31.12.2018	Changes amount
Number of employees (e)	**89,397**	**92,241**	**-2,844**
Italy	65,855	68,435	-2,580
Abroad	23,542	23,806	-264
Number of financial advisors	**5,031**	**5,150**	**-119**
Number of branches (f)	**4,886**	**5,302**	**-416**
Italy	3,825	4,217	-392
Abroad	1,061	1,085	-24

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

(e) The headcount shown refers to the actual number of employees at the end of the year, with part-time employees also counted as 1 unit.

(f) Including Retail Branches, Third Sector Branches, SME Branches and Corporate Branches.

30.09.2019

30.09.2018 (Income statement figures)
01.01.2019 (Balance sheet figures)

Executive summary

Intesa Sanpaolo in the nine months of 2019

IFRS 16 came into force on 1 January 2019. This new financial reporting standard, which replaces IAS 17, has an impact on the method of accounting for leases, as well as rental, hire, lease and loan agreements, introducing a new definition based on the transfer of the "right of use" of the asset leased. The new standard requires all leases to be recorded by the lessee in the Balance Sheet as assets and liabilities. It introduces a different method of recognition for the costs: in IAS 17, lease payments were reported under the Income Statement caption administrative expenses, whereas under IFRS 16, the expense is reported both through the amortisation of the asset related to the "right of use" and as an interest expense on the payable.
The chapter "Accounting policies" describes the qualitative and quantitative disclosure regarding the first-time adoption of the new standard, which highlights the nature of the changes in the accounting approach for leases, the main choices made by the Group, and the impacts of the first-time adoption.
With regard to the interpretation of the income statement results and the balance sheet figures, please note that from the first quarter of 2019 – and, therefore, also in this Report – the reclassified statements were subject to marginal changes to take account of the adoption of the new standard. In particular, specific sub-captions have been added to the Balance Sheet, respectively, under property, equipment and intangible assets, to separately show the rights of use acquired through the lease, and to the other liabilities, to separately show the lease payables. With regard to the comparative information, despite the Group's decision to use the modified retrospective approach for the first-time adoption of IFRS 16, which does not require the restatement of the comparative information, the income statement and balance sheet figures affected by the new standard have been restated – solely in the reclassified statements – to enable comparisons and comments on a like-for-like basis. Specifically, in the reclassified balance sheet and the related tables in the report on operations, the balance sheet figures as at 30 September 2019 are compared with the corresponding figures as at 1 January 2019, which include – where applicable – the effects of the first-time adoption of IFRS 16.

Consolidated results

The Intesa Sanpaolo Group closed its income statement for the first nine months of 2019 with net income of 3,310 million euro, up by around 10% on 3,012 million euro for the same period of the previous year, which also included the positive effect of the sale of the interest held in NTV - Nuovo Trasporto Viaggiatori (246 million euro). The change was favoured by lower adjustments and provisions, in the presence of marginally declining operating income and decreasing operating costs. The net income was also negatively impacted by the levies and charges for the banking system, whose amount was higher than the comparative figure.
The detailed breakdown of the components of operating income show net interest income of 5,258 million euro, which decreased at overall level (-5%), primarily due to lower interest on non-performing assets as a result of the reduction in NPLs, as well as the lower contribution from core deposits.
The lower contribution from net fee and commission income (-2.3%, to 5,865 million euro), which represented around 43% of operating income, was attributable to the management, dealing and financial consultancy segment (-3.9%), which reflected market trends, while revenues from commercial banking activities were substantially stable (-0.2%) and other fee and commission income recorded an increase (+1.5%).
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was 876 million euro, up 3.5% compared to the first nine months of 2018.
The Profits (losses) on financial assets and liabilities designated at fair value, which include the profits (losses) on trading and the fair value adjustments in hedge accounting, increased significantly on the figure for the same period of 2018 (+24%, to 1,569 million euro), which had benefited – as mentioned above – from the effects of the sale of the interest held in NTV - Nuovo Trasporto Viaggiatori (264 million euro). The caption includes the positive effect of the sale of debt securities, including securities measured at amortised cost, as a result of the trends in the correlations for credit and interest rate risk that occurred prior to the EU elections, which offset the capital losses recognised, in the same aggregate, in respect of certificates issued by Banca IMI, for the measurement of the DVA valuation component recognised in the period.
Other operating income and expenses – a caption which comprises profits on investments carried at equity and other income and expenses from continuing operations – were down on the figure for the first nine months of 2018 (14 million euro compared to 44 million) also due to the absence of the income generated by SEC Servizi, a subsidiary that was reclassified to assets held for sale and discontinued operations in the third quarter of 2018, with a view to its subsequent sale.
In relation to the above dynamics, operating income in the nine months of 2019 amounted to 13,582 million euro, down slightly (-0.8%) compared to the same period of 2018.
Operating costs (6,758 million euro) were down (-2.5%), both for personnel expenses (-1.6%), in relation to the downsizing of the workforce, and for administrative expenses (-5.7%), which fell across almost all the main expense items. Amortisation and depreciation were essentially in line with the first nine months of 2018 (+0.4%). The cost/income ratio for the period, which reflected the revenue performance, stood at 49.8%.
As a result of the revenue and cost trends, the operating margin amounted to 6,824 million euro, up by 0.9% compared to the first nine months of the previous year.

Net adjustments to loans fell overall to 1,396 million euro (around -18%), due to lower adjustments to stage 3 loans, specifically bad loans, and recoveries on performing loans, which benefited from a better risk profile, also due to portfolio recomposition effects and the updating of customer ratings. The annualised cost of risk dropped from 61 basis points in 2018 to 47 basis points in the first nine months of 2019.
Other net provisions and net impairment losses on other assets also decreased overall to 86 million euro (111 million euro for the first nine months of 2018), mainly due to the lower net provisions for risks and charges in relation to legal and tax disputes.
The other income (expenses), which includes realised profits (losses) on investments and income and expenses not strictly linked to operations, was positive by a small amount (5 million euro) compared to a figure of -1 million euro for the first nine months of 2018.
In the period, just as in the period of comparison, there were no gains/losses on discontinued operations.
As a result of the trends illustrated above, gross income grew sharply (+8%) to 5,347 million euro.
Taxes on income for the period, which were impacted by the realignment of the tax values in the first half, came to 1,521 million euro, with a tax rate of 28.4%.
Net of tax, charges for integration and exit incentives were recorded of 79 million euro, as well as the effects of purchase price allocation of 106 million euro.
The charges aimed at maintaining the stability of the banking industry were up on the same period of the previous year, to a total of 338 million euro after tax (309 million euro in the first nine months of 2018), corresponding to 484 million euro before tax, consisting of ordinary and additional contributions to the resolution fund, the estimate of the contributions for the full year to the deposit guarantee schemes and the levies incurred by international subsidiary banks.
After allocating the losses attributable to minority interests of 7 million euro, the income statement for the first nine months of 2019 closed, as stated, with net income of 3,310 million euro, compared to 3,012 million euro in the same period of 2018 (around +10%).

The income statement for the third quarter of 2019 in comparison to the previous quarter showed a decrease in operating income (-3.4% to 4,516 million euro). In detail, net interest income in the third quarter decreased slightly on the second quarter (-1.1%), while net fee and commission income substantially confirmed the previous quarter's contribution overall (+0.1%), in the presence of differing trends in the single operating segments: commercial banking activities (+0.3%), management, dealing and consultancy activities (+1.1%) and other fee and commission income (-6.7%). Income from insurance business in the third quarter of 2019 was higher than in the second quarter (+6%), profits (losses) on financial assets and liabilities designated at fair value decreased on the second quarter (around -24%).
Operating costs for the third quarter showed slight growth on the previous quarter (+1%), substantially attributable to administrative expenses (+1.7%) and amortisation and depreciation (+3.6%), with personnel expenses substantially stable (+0.2%).
In relation to revenue and cost trends, the operating margin for the third quarter was lower than the margin in the second quarter (-7.6% to 2,228 million euro).
Adjustments to loans recognised in the third quarter were down compared to the second quarter, which was impacted by higher impairment of bad loans and unlikely-to-pay loans, as well as loans classified as stage 2, in the presence of lower recoveries on performing loans. Other net provisions and net impairment losses on other assets were also down – though with much lower absolute values (around -49%).
The performance outlined above resulted in a decrease of 4.8% in gross income, which amounted to 1,734 million euro.
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, and minority interests, the income statement for the third quarter closed with net income of 1,044 million euro, compared to 1,216 million euro for the previous quarter.

As regards balance sheet figures, as at 30 September 2019 loans to customers amounted to around 395 billion euro, up on the beginning of the year (+1.6 billion euro, or +0.4%), despite the posting under discontinued operations of the loans and receivables to be sold shortly to Prelios (around -1.8 billion euro). As regards the performance of the different components of the aggregate, commercial banking loans were up overall (+5.2 billion euro, +1.5%), due to the favourable trend in advances and other loans (+6.6 billion euro, or +4.7%), which fully absorbed the decrease in current accounts (-1.2 billion euro, or -5.4%), in the presence of substantially stable mortgage loans (-0.2 billion euro, or -0.1%). Non-performing loans decreased (-2.3 billion euro, or around -14%), also due to their previously mentioned posting under discontinued operations, while loans represented by securities increased (+0.8 billion euro, or +16.3%).
Lastly, the financial component represented by repurchase agreements decreased (-2.1 billion euro, or -6.3%).

On the funding side, direct deposits from banking business amounted to 427 billion euro at the end of September, up since the start of the year (+11.6 billion euro, or +2.8%), primarily due to the greater amounts of current accounts and deposits (+18.3 billion euro, or +6.3%), owing to customer appetite for maintaining a high level of liquidity. Bonds were also up (+2.2 billion euro, +3.6%) as well as other deposits (+3.9 billion euro, or +17.6%), including commercial paper and certificates. The performance of the aggregate was influenced by the significant decrease in repurchase agreements (-12.1 billion euro, or around -50%), also in relation to the decrease of operations with institutional customers.

Direct deposits from insurance business – which also includes technical reserves – exceeded 164 billion euro at the end of September, up sharply compared to the start of the year (+15.1 billion euro, or +10%). Specifically, there was an increase in both financial liabilities measured at fair value (+6.5 billion euro, or +9.7%), fully consisting of unit-linked products, and in technical reserves (+8.4 billion euro, or +10.4%), which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk.

The Group's indirect customer deposits at the end of the period amounted to around 524 billion euro, up since the start of the year (around +28 billion euro, or +5.6%), due to the positive performance of all the components, in relation to the more

favourable market conditions, which led to a revaluation of the assets, in the presence of customer appetite for maintaining a high level of liquidity.
In detail, assets under management increased by 21 billion euro (+6.4%), driven by all components: mutual funds (+4.8 billion euro, or +4.2%), technical reserves and financial liabilities of the insurance business (+8.7 billion euro, or +6.2%), portfolio management schemes (+4.1 billion euro, or +7.9%), pension funds (+1.1 billion euro, or +12.2%) and relations with institutional customers (+2.3 billion euro, or around +17%).
Assets under administration increased by 6.8 billion euro (+4.1%), mainly due to third-party securities and products.

For an illustration of the income statement results and the balance sheet aggregates broken down by Group business segment, please refer to the specific chapter of this Report.

Highlights

The highlights of the third quarter of 2019 are illustrated below. Reference is made to the Half-yearly Report as at 30 June 2019 for the events that occurred in the first half of the year.

On 31 July, Intesa Sanpaolo, through Banca 5, and Sisal Group, through SisalPay, signed an agreement, subject to the usual conditions precedent, including receipt of authorisations from the Antitrust authority and the Bank of Italy - to set up a NewCo, via contribution, which will offer banking products and payment and transactional services at over 50,000 merchants located throughout the entire country, which are visited by around 45 million individuals daily.
In a highly competitive scenario such as that of proximity payment, the new company - 70%-owned by Sisal Group and 30%-owned by Banca 5 - will be the first Italian network with a “proximity banking” model, which, by integrating physical and digital channels, in accordance with principles of social responsibility, will guarantee significant benefits for consumers and the network of merchants involved in the agreement, by offering simple banking products and payment services.
The new network, which will be fully operational from the beginning of 2020, will add to the offering of products and services of Banca 5 and SisalPay, including:
- cash withdrawal up to a maximum of 150 euro per day;
- collections for participating entities (for example, refunds on behalf of large companies) and payment notices (such as payments by notice (MAV) and payment of fines/taxes by notice (RAV)) for Intesa Sanpaolo customers;
- payments of bills, taxes and “pagoPA” services for payments to the public administration;
- telephone and prepaid card top-ups;
- purchases of transport tickets and passes;
- purchase codes for the most common marketplaces and Apps.

Also on 31 July 2019, Intesa Sanpaolo and Prelios reached agreement to form a strategic partnership in respect of loans classified as unlikely-to-pay (UTP). The agreement, which entails the outsourcing of management of over 60% of the Group’s current stock of UTP, will enable the Group to free up resources to focus on the prevention of credit deterioration and management of early delinquency. Moreover, this business partnership with a leading player in the UTP segment will further improve management performance, including through the use of real estate expertise and the ongoing support from Prelios’ sector experts and the further acceleration of the digitisation of management through dedicated investments in platforms and advanced analytics. This strategic target is joined by the opportunity to assign to Prelios a portfolio of UTP worth around 3 billion euro of gross book value, at a price in line with its carrying value, in order to accelerate the non-performing loan reduction target set out in the 2018-2021 Business Plan.
More specifically, as stated, the agreement consists of two transactions:
- a 10-year contract for the servicing of UTP Corporate and SME loans of the Intesa Sanpaolo Group to be provided by Prelios, initially covering a portfolio worth around 6.7 billion euro of gross book value, with terms and conditions in line with market standards and a fee structure mostly composed of a variable component specifically aimed at maximising the return of positions to performing status;
- the disposal and securitisation of a portfolio of UTP Corporate and SME loans of the Intesa Sanpaolo Group worth around 3 billion euro of gross book value, at a price of around 2 billion euro, in line with the carrying value. Also as a result of posting the non-performing loans to be sold under discontinued operations due to their imminent sale (for amounts of around 2.7 billion euro and 1.7 billion euro, respectively, as a result of the collections made in the meantime), at the end of September 2019, the NPL to total loan ratios decreased to 7.6% and 3.6%, respectively, in gross and net book values, and around 80% of the target set for the entire four-year period for reducing non-performing loans set in the 2018-2021 Business Plan has already been achieved, at no extraordinary cost to shareholders. The capital structure of the securitisation vehicle was determined as follows, in order to obtain the full accounting and regulatory derecognition of the portfolio at the closing date (expected at the end of November 2019):
    - a Senior Tranche equivalent to 70% of the portfolio price, to be underwritten by Intesa Sanpaolo;
    - Junior and Mezzanine Tranches equivalent to the remaining 30% of the portfolio price, to be underwritten to the tune of 5% by Intesa Sanpaolo and the remaining 95% by Prelios and third-party investors.

The transactions are compliant with the Group’s income statement and balance sheet targets and forecasts which have already been disclosed to the market for the 2019 financial year and the 2018-2021 Business Plan. They do not affect the strategic partnership in place with Intrum.

On 9 September 2019 Intesa Sanpaolo received notification of the ECB’s permission to calculate the Group’s consolidated capital ratios applying the so-called Danish Compromise - under which insurance investments are risk weighted instead of being deducted from capital - as of the regulatory filings for 30 September 2019.

On 18 September 2019, Intesa Sanpaolo concluded an ordinary share buy-back programme. The programme executed a plan that assigned, free of charge, ordinary shares to the Group’s employees; this covered the share-based incentive plan for 2018 reserved for Risk Takers who accrued a bonus in excess of the so-called “materiality threshold”, as well as for those who, among Managers or Professionals that are not Risk Takers, accrued “relevant bonuses”. In addition, the programme has been implemented in order to grant, when certain conditions occur, severance payments to Risk Takers upon early termination of employment. The purchases were made in accordance with the terms authorised by the Shareholders’ Meeting of Intesa Sanpaolo of 30 April 2019. The pertinent subsidiaries also concluded their purchase programmes of the Parent Company’s shares to be assigned, free of charge, to their employees. The programmes were approved by their respective corporate bodies within their remits and are analogous to the programme approved at the Parent Company’s Shareholders’ Meeting.
On the two days of execution of the programme (17 and 18 September 2019), the Intesa Sanpaolo Group purchased a total of 17,137,954 Intesa Sanpaolo ordinary shares, through Banca IMI (which was responsible for the programme execution), representing approximately 0.10% of the share capital of the Parent Company, at an average purchase price of 2.129 euro per share, for a total value of 36,481,543 euro. The Parent Company purchased 12,393,958 shares at an average purchase price of 2.129 euro per share, for a value of 26,388,935 euro.

As part of the corporate simplification programme set out in the Business Plan, on 27 September 2019, the Board of Directors approved the merger by incorporation of Mediocredito Italiano. Moreover, on 15 October 2019 – following the authorisation released by the European Central Bank in accordance with the regulations in force, the plan for the merger by incorporation of Intesa Sec. 3 S.r.l. and Intesa Sec. NPL S.p.A. into Intesa Sanpaolo S.p.A. was filed with the Torino Company Register.

The first sell-back of high-risk loans deriving from the former Venetian banks was launched on 11 May 2019, following notification of Intesa Sanpaolo on 11 March 2019 from the Ministry of the Economy and Finance of the issue of the decree formalising the high-risk guarantee for a total of 4 billion euro (1.26 billion euro for Veneto Banca in compulsory administrative liquidation and 2.74 billion euro for Banca Popolare di Vicenza in compulsory administrative liquidation). Following the end of the quarter, on 12 October, the second sell-back was finalised, based on the agreements between the Banks in compulsory administrative liquidation and SGA (now “AMCO”). It regarded a set of high risk positions classified as “bad loans” and/or “unlikely-to-pay loans” from the fourth quarter of 2018 up to 30 June 2019, for a consideration equal to the net book value of 218 million euro. Given that the sell-back was finalised after the end of the quarter, those receivables are still under discontinued operations as at 30 September 2019, along with the positions reclassified as “bad loans” and/or “unlikely-to-pay loans” during the third quarter of 2019.

In October, i.e. following the end of the quarter, Intesa Sanpaolo concluded the purchase of a portfolio of performing mortgage loans for a nominal value of approximately 900 million euro from the Italian branch of Barclays Bank Ireland PLC. The mortgages, which are mainly for the purchase of primary residences, were granted to Italian customers and are backed by residential properties located in Italy.
In terms of liquidity, the portfolio has a high potential for self-financing through the ISP OBG Srl covered bond issuance programme and a risk profile which is further limited by the expected purchase of first-loss protection through the involvement of specialised capital market investors under the GARC (*Gestione Attiva Rischio di Credito* - Active Credit Risk Management) synthetic securitisation programme.
This transaction forms part of the credit strategies and dynamic management of the Group's loan portfolio set out in the Business Plan, and represents an opportunity to expand the household customer base and the consequent development of cross-selling and sustainable growth in revenues.

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		30.09.2019	31.12.2018	Changes amount	Changes %
10.	Cash and cash equivalents	6,923	10,350	-3,427	-33.1
20.	Financial assets measured at fair value through profit or loss	55,286	42,115	13,171	31.3
	a) financial assets held for trading	*51,596*	*38,806*	*12,790*	*33.0*
	b) financial assets designated at fair value	*195*	*208*	*-13*	*-6.3*
	c) other financial assets mandatorily measured at fair value	*3,495*	*3,101*	*394*	*12.7*
30.	Financial assets measured at fair value through other comprehensive income	75,218	60,469	14,749	24.4
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	167,034	149,546	17,488	11.7
40.	Financial assets measured at amortised cost	491,010	476,503	14,507	3.0
	a) due from banks	*73,443*	*69,307*	*4,136*	*6.0*
	b) loans to customers	*417,567*	*407,196*	*10,371*	*2.5*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	570	952	-382	-40.1
50.	Hedging derivatives	3,687	2,993	694	23.2
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,741	124	2,617	
70.	Investments in associates and companies subject to joint control	1,113	943	170	18.0
80.	Technical insurance reserves reassured with third parties	25	20	5	25.0
90.	Property and equipment	8,752	7,372	1,380	18.7
100.	Intangible assets	9,082	9,077	5	0.1
	of which:				
	- goodwill	*4,163*	*4,163*	*-*	*-*
110.	Tax assets	15,555	17,253	-1,698	-9.8
	a) current	*1,831*	*3,320*	*-1,489*	*-44.8*
	b) deferred	*13,724*	*13,933*	*-209*	*-1.5*
120.	Non-current assets held for sale and discontinued operations	2,554	1,297	1,257	96.9
130.	Other assets	9,168	8,707	461	5.3
Total assets		**848,718**	**787,721**	**60,997**	**7.7**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		30.09.2019	31.12.2018	Changes amount	Changes %
10.	Financial liabilities measured at amortised cost	536,001	513,775	22,226	4.3
	a) due to banks	*119,365*	*107,815*	*11,550*	*10.7*
	b) due to customers	*330,962*	*323,900*	*7,062*	*2.2*
	c) securities issued	*85,674*	*82,060*	*3,614*	*4.4*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	888	810	78	9.6
20.	Financial liabilities held for trading	53,938	41,895	12,043	28.7
30.	Financial liabilities designated at fair value	4	4	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	74,405	67,800	6,605	9.7
40.	Hedging derivatives	12,882	7,221	5,661	78.4
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	767	398	369	92.7
60.	Tax liabilities	2,561	2,433	128	5.3
	a) current	*422*	*163*	*259*	
	b) deferred	*2,139*	*2,270*	*-131*	*-5.8*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	256	258	-2	-0.8
80.	Other liabilities	17,064	11,645	5,419	46.5
90.	Employee termination indemnities	1,214	1,190	24	2.0
100.	Allowances for risks and charges	3,950	5,064	-1,114	-22.0
	a) commitments and guarantees given	*423*	*510*	*-87*	*-17.1*
	b) post-employment benefits	*238*	*261*	*-23*	*-8.8*
	c) other allowances for risks and charges	*3,289*	*4,293*	*-1,004*	*-23.4*
110.	Technical reserves	89,237	80,797	8,440	10.4
120.	Valuation reserves	-194	-913	-719	-78.8
125.	Valuation reserves pertaining to insurance companies	727	9	718	
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,233	13,006	227	1.7
160.	Share premium reserve	25,074	24,768	306	1.2
170.	Share capital	9,086	9,085	1	0.0
180.	Treasury shares (-)	-110	-84	26	31.0
190.	Minority interests (+/-)	322	407	-85	-20.9
200.	Net income (loss) (+/-)	3,310	4,050	-740	-18.3
Total liabilities and shareholders' equity		**848,718**	**787,721**	**60,997**	**7.7**

Consolidated income statement

(millions of euro)

		30.09.2019	30.09.2018	Changes amount	%
10.	Interest and similar income	7,715	7,867	-152	-1.9
	of which: interest income calculated using the effective interest rate method	*7,790*	*7,778*	*12*	*0.2*
20.	Interest and similar expense	-2,518	-2,287	231	10.1
30.	**Interest margin**	**5,197**	**5,580**	**-383**	**-6.9**
40.	Fee and commission income	7,326	7,438	-112	-1.5
50.	Fee and commission expense	-1,810	-1,745	65	3.7
60.	**Net fee and commission income**	**5,516**	**5,693**	**-177**	**-3.1**
70.	Dividend and similar income	107	82	25	30.5
80.	Profits (Losses) on trading	420	397	23	5.8
90.	Fair value adjustments in hedge accounting	-65	-8	57	
100.	Profits (Losses) on disposal or repurchase of:	1,135	520	615	
	a) financial assets measured at amortised cost	*64*	*33*	*31*	*93.9*
	b) financial assets measured at fair value through other comprehensive income	*1,028*	*449*	*579*	
	c) financial liabilities	*43*	*38*	*5*	*13.2*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	55	308	-253	-82.1
	a) financial assets and liabilities designated at fair value	*-103*	*18*	*-121*	
	b) other financial assets mandatorily measured at fair value	*158*	*290*	*-132*	*-45.5*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,040	2,675	365	13.6
120.	**Net interest and other banking income**	**15,405**	**15,247**	**158**	**1.0**
130.	Net losses/recoveries for credit risks associated with:	-1,481	-1,831	-350	-19.1
	a) financial assets measured at amortised cost	*-1,474*	*-1,831*	*-357*	*-19.5*
	b) financial assets measured at fair value through other comprehensive income	*-7*	*-*	*7*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-9	-1	-11.1
140.	Profits (Losses) on changes in contracts without derecognition	-8	-4	4	
150.	**Net income from banking activities**	**13,908**	**13,403**	**505**	**3.8**
160.	Net insurance premiums	7,335	6,484	851	13.1
170.	Other net insurance income (expense)	-9,282	-8,044	1,238	15.4
180.	**Net income from banking and insurance activities**	**11,961**	**11,843**	**118**	**1.0**
190.	Administrative expenses:	-7,171	-7,377	-206	-2.8
	a) personnel expenses	*-4,292*	*-4,355*	*-63*	*-1.4*
	b) other administrative expenses	*-2,879*	*-3,022*	*-143*	*-4.7*
200.	Net provisions for risks and charges	23	-57	80	
	a) commitments and guarantees given	*69*	*57*	*12*	*21.1*
	b) other net provisions	*-46*	*-114*	*-68*	*-59.6*
210.	Net adjustments to / recoveries on property and equipment	-389	-269	120	44.6
220.	Net adjustments to / recoveries on intangible assets	-493	-417	76	18.2
230.	Other operating expenses (income)	628	571	57	10.0
240.	**Operating expenses**	**-7,402**	**-7,549**	**-147**	**-1.9**
250.	Profits (Losses) on investments in associates and companies subject to joint control	43	23	20	87.0
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	3	-3	6	
290.	**Income (Loss) before tax from continuing operations**	**4,605**	**4,314**	**291**	**6.7**
300.	Taxes on income from continuing operations	-1,302	-1,280	22	1.7
310.	**Income (Loss) after tax from continuing operations**	**3,303**	**3,034**	**269**	**8.9**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**3,303**	**3,034**	**269**	**8.9**
340.	Minority interests	7	-22	29	
350.	**Parent Company's net income (loss)**	**3,310**	**3,012**	**298**	**9.9**
	Basic EPS - Euro	**0.19**	**0.18**		
	Diluted EPS - Euro	**0.19**	**0.18**		

Statement of consolidated comprehensive income

(millions of euro)

		30.09.2019	30.09.2018	Changes	
				amount	%
10.	**Net income (Loss)**	**3,303**	**3,034**	**269**	**8.9**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**160**	**-43**	**203**	
20.	Equity instruments designated at fair value through other comprehensive income	-20	32	-52	
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	244	-79	323	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	-64	4	-68	
80.	Non current assets classified as 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	**1,244**	**-1,205**	**2,449**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	87	-19	106	
120.	Cash flow hedges	-231	116	-347	
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	700	-843	1,543	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	685	-461	1,146	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	3	2	1	50.0
170.	**Total other comprehensive income (net of tax)**	**1,404**	**-1,248**	**2,652**	
180.	**Total comprehensive income (captions 10 + 170)**	**4,707**	**1,786**	**2,921**	
190.	**Total consolidated comprehensive income pertaining to minority interests**	**-40**	**25**	**-65**	
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**4,747**	**1,761**	**2,986**	

Changes in consolidated shareholders' equity as at 30 September 2019

(millions of euro)

	30.09.2019												
	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	other shares		retained earnings	other								
AMOUNTS AS AT 31.12.2018	**9,473**	**-**	**24,789**	**12,471**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,431**	**54,024**	**407**
Changes in opening balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AMOUNTS AS AT 1.1.2019	**9,473**	**-**	**24,789**	**12,471**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,431**	**54,024**	**407**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**580**						**-580**	**-**	**-**	**-**
Dividends and other allocations										**-3,492**	**-3,492**	**-3,463**	**-29**
CHANGES IN THE PERIOD													
Changes in reserves			306	-284	91						113	113	-
Operations on shareholders' equity													
Issue of new shares									10		10	10	-
Purchase of treasury shares									-36		-36	-36	-
Dividends											-	-	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-13		-1	-168							-182	-166	-16
Total comprehensive income for the period						**686**	**718**			**3,303**	**4,707**	**4,747**	**-40**
SHAREHOLDERS' EQUITY AS AT 30.09.2019	**9,460**	**-**	**25,094**	**12,599**	**669**	**-294**	**727**	**4,103**	**-110**	**3,303**	**55,551**	**55,229**	**322**
- Group	**9,086**	**-**	**25,074**	**12,564**	**669**	**-194**	**727**	**4,103**	**-110**	**3,310**	**55,229**		
- minority interests	**374**	**-**	**20**	**35**	**-**	**-100**	**-**	**-**	**-**	**-7**	**322**		

(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 September 2018

(millions of euro)

	30.09.2018												
	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	837		830						5		1,672	1,672	-
Purchase of treasury shares		-485							-29		-514	-513	-1
Dividends			-2,065								-2,065	-2,065	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-111		-4	-256		37					-334	-285	-49
Total comprehensive income for the period	**-**					**-787**	**-461**			**3,034**	**1,786**	**1,761**	**25**
SHAREHOLDERS' EQUITY AS AT 30.09.2018	**9,267**	**-**	**24,792**	**12,900**	**578**	**-1,703**	**-44**	**4,103**	**-110**	**3,034**	**52,817**	**52,473**	**344**
- Group	**9,084**	**-**	**24,770**	**12,710**	**578**	**-1,631**	**-44**	**4,103**	**-109**	**3,012**	**52,473**		
- minority interests	**183**	**-**	**22**	**190**	**-**	**-72**	**-**	**-**	**-1**	**22**	**344**		

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

Report on operations

Economic results

General aspects

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 material, also to account for changes in the scope of consolidation.
The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.
In particular, the comparative figures have been restated on a like-for-like basis to reflect not only the transition to IFRS 16, but also the change in the scope of consolidation due to the inclusion of Morval Vonwiller Holding and Autostrade Lombarde, as well as the outsourcing of the servicing of bad loans to Tersia within the framework of the strategic partnerships with Intrum. Restatement was also applied to the levies and other charges concerning the banking industry borne by the international subsidiary banks operating in Slovakia, Serbia, Bosnia and Albania, which upon review of the local legislation were determined to be similar to the contributions paid by European banks to the resolution and deposit guarantee funds, and have therefore been classified to the specific caption.
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 pursuant to 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, have 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 book 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, profits (losses) on financial assets and liabilities measured 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 share of the premium on the issue of the certificates paid to the networks for their placement, which is reclassified from Profits (Losses) on assets and liabilities designated at fair value to Net fee and commission income;
- the return components of the insurance policies taken out to cover contractual indemnities and retention plans for financial advisors, which are deducted directly from Profits (Losses) on financial assets and liabilities designated at fair value, in accordance with the valuation effect of the assets in question, rather than being presented – as attributable to the advisors – among Other net provisions and net impairment losses on other assets (for valuation effects) or among Net fee and commission income or Other operating income (expenses), depending on the type of insurance policy used (for effects from realisation);
- the operating income of Autostrade Lombarde and Risanamento and their respective subsidiaries, reallocated to Other operating income (expenses), in view of the fact that the entities concerned are not subject to management and coordination within the framework of the Group and operate in sectors entirely distinct from banking and finance;
- 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/recoveries 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 Allowances 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 financial assets 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. This caption also includes the amortisation of the intangible asset relating to the motorway concession held by Autostrade Lombarde (through its subsidiary Brebemi), in view of the particular nature of the said concession;
- 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)

	30.09.2019	30.09.2018	Changes	
			amount	%
Net interest income	5,258	5,535	-277	-5.0
Net fee and commission income	5,865	6,001	-136	-2.3
Income from insurance business	876	846	30	3.5
Profits (Losses) on financial assets and liabilities designated at fair value	1,569	1,265	304	24.0
Other operating income (expenses)	14	44	-30	-68.2
Operating income	**13,582**	**13,691**	**-109**	**-0.8**
Personnel expenses	-4,226	-4,294	-68	-1.6
Other administrative expenses	-1,759	-1,866	-107	-5.7
Adjustments to property, equipment and intangible assets	-773	-770	3	0.4
Operating costs	**-6,758**	**-6,930**	**-172**	**-2.5**
Operating margin	**6,824**	**6,761**	**63**	**0.9**
Net adjustments to loans	-1,396	-1,696	-300	-17.7
Other net provisions and net impairment losses on other assets	-86	-111	-25	-22.5
Other income (expenses)	5	-1	6	
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**5,347**	**4,953**	**394**	**8.0**
Taxes on income	-1,521	-1,477	44	3.0
Charges (net of tax) for integration and exit incentives	-79	-66	13	19.7
Effect of purchase price allocation (net of tax)	-106	-108	-2	-1.9
Levies and other charges concerning the banking industry (net of tax)	-338	-309	29	9.4
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	7	19	-12	-63.2
Net income (loss)	**3,310**	**3,012**	**298**	**9.9**

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

Quarterly development of the reclassified income statement

(millions of euro)

	2019			2018			
	Third quarter	**Second quarter**	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Net interest income	1,741	1,761	1,756	1,736	1,844	1,838	1,853
Net fee and commission income	1,990	1,989	1,886	2,029	1,959	2,015	2,027
Income from insurance business	301	284	291	238	271	281	294
Profits (Losses) on financial assets and liabilities designated at fair value	479	633	457	204	208	448	609
Other operating income (expenses)	5	10	-1	-11	-11	25	30
Operating income	**4,516**	**4,677**	**4,389**	**4,196**	**4,271**	**4,607**	**4,813**
Personnel expenses	-1,421	-1,418	-1,387	-1,519	-1,415	-1,447	-1,432
Other administrative expenses	-606	-596	-557	-753	-637	-609	-620
Adjustments to property, equipment and intangible assets	-261	-252	-260	-287	-259	-254	-257
Operating costs	**-2,288**	**-2,266**	**-2,204**	**-2,559**	**-2,311**	**-2,310**	**-2,309**
Operating margin	**2,228**	**2,411**	**2,185**	**1,637**	**1,960**	**2,297**	**2,504**
Net adjustments to loans	-473	-554	-369	-698	-519	-694	-483
Other net provisions and net impairment losses on other assets	-19	-37	-30	-76	-25	-35	-51
Other income (expenses)	-2	1	6	507	-2	3	-2
Income (Loss) from discontinued operations	-	-	-	-	-	-1	1
Gross income (loss)	**1,734**	**1,821**	**1,792**	**1,370**	**1,414**	**1,570**	**1,969**
Taxes on income	-536	-449	-536	-173	-432	-504	-541
Charges (net of tax) for integration and exit incentives	-27	-30	-22	-54	-31	-16	-19
Effect of purchase price allocation (net of tax)	-37	-29	-40	-49	-38	-26	-44
Levies and other charges concerning the banking industry (net of tax)	-96	-96	-146	-69	-90	-93	-126
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	6	-1	2	13	10	-4	13
Net income (loss)	**1,044**	**1,216**	**1,050**	**1,038**	**833**	**927**	**1,252**

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

Operating income

Operating income amounted to 13,582 million euro, down slightly (-0.8%) on the first nine months of 2018, due to the decrease in net interest income, net fee and commission income and other net operating income, almost entirely offset by the significant performance of profits (losses) on financial assets and liabilities designated at fair value.

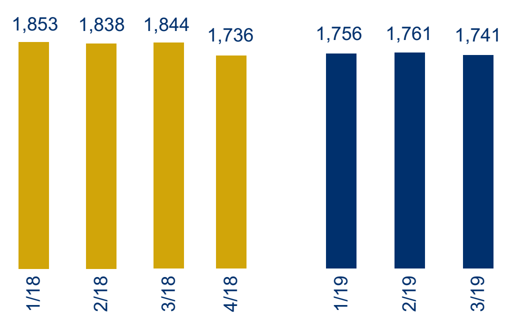
Net interest income

(millions of euro)

	30.09.2019	30.09.2018	Changes	
			amount	%
Relations with customers	5,586	5,768	-182	-3.2
Securities issued	-1,609	-1,825	-216	-11.8
Customer dealing	**3,977**	**3,943**	**34**	**0.9**
Instruments measured at amortised cost which do not constitute loans	261	195	66	33.8
Other financial assets and liabilities designated at fair value through profit or loss	92	64	28	43.8
Other financial assets designated at fair value through other comprehensive income	668	535	133	24.9
Financial assets and liabilities	**1,021**	**794**	**227**	**28.6**
Relations with banks	**59**	**76**	**-17**	**-22.4**
Differentials on hedging derivatives	**-535**	**-209**	**326**	
Non-performing assets	**674**	**884**	**-210**	**-23.8**
Other net interest income	**62**	**47**	**15**	**31.9**
Net interest income	**5,258**	**5,535**	**-277**	**-5.0**

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

Quarterly development
Net interest income
(millions of euro)



Net interest income, amounting to 5,258 million euro, was down by 5% on the same period of the previous year. Against the backdrop of interest rates which remain in negative territory, performance was conditioned by the asset size effect attributable to lower average loans, lower interest on non-performing assets due to the gradual reduction of NPLs and the more limited contribution of hedging of core deposits. Net interest income on customer dealing increased moderately to 3,977 million euro (+0.9%), driven by the decrease in the cost of funding in the form of securities issued and by higher interest on financial assets of 1,021 million euro (+28.6%). However, these effects were offset by the negative impact of the differentials on hedging derivatives and lower interest on non-performing assets and, to a marginal extent, on relations with banks, in view of the increase in the negative balance from September 2018 to September 2019.

(millions of euro)

	2019			Changes %	
	Third quarter (A)	**Second quarter (B)**	**First quarter (C)**	**(A/B)**	**(B/C)**
Relations with customers	1,851	1,859	1,876	-0.4	-0.9
Securities issued	-545	-521	-543	4.6	-4.1
Customer dealing	**1,306**	**1,338**	**1,333**	**-2.4**	**0.4**
Instruments measured at amortised cost which do not constitute loans	89	92	80	-3.3	15.0
Other financial assets and liabilities designated at fair value through profit or loss	35	20	37	75.0	-45.9
Other financial assets designated at fair value through other comprehensive income	232	223	213	4.0	4.7
Financial assets and liabilities	**356**	**335**	**330**	**6.3**	**1.5**
Relations with banks	**27**	**16**	**16**	**68.8**	**-**
Differentials on hedging derivatives	**-195**	**-175**	**-165**	**11.4**	**6.1**
Non-performing assets	**221**	**230**	**223**	**-3.9**	**3.1**
Other net interest income	**26**	**17**	**19**	**52.9**	**-10.5**
Net interest income	**1,741**	**1,761**	**1,756**	**-1.1**	**0.3**

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

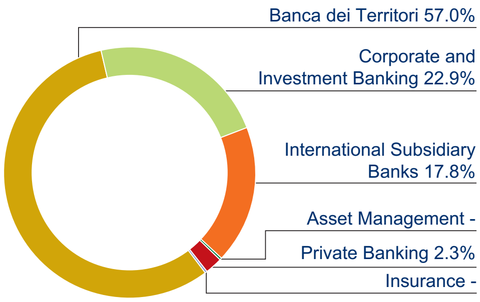
Net interest income in the third quarter of 2019 was slightly lower than in the second and first quarters of the current year.

(millions of euro)

	30.09.2019	**30.09.2018**	**Changes**	
			amount	**%**
Banca dei Territori	3,292	3,504	-212	-6.1
Corporate and Investment Banking	1,322	1,248	74	5.9
International Subsidiary Banks	1,030	977	53	5.4
Private Banking	132	116	16	13.8
Asset Management	-	-	-	-
Insurance	-	-	-	-
Total business areas	**5,776**	**5,845**	**-69**	**-1.2**
Corporate Centre	-518	-310	208	67.1
Intesa Sanpaolo Group	**5,258**	**5,535**	**-277**	**-5.0**

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

Business areas
Net interest income



The Banca dei Territori Division, which accounts for 57% of business area results, recorded a decrease (-6.1% or -212 million euro) in net interest income owing to the lesser contribution from short-term loan volumes and the more limited contribution of the hedging of core deposits. By contrast, the net interest income of the Corporate and Investment Banking Division recorded an increase (+5.9%, or +74 million euro) attributable to the Global Markets segment, driven by the positive performance of the securities portfolio. Net interest income also increased for the International Subsidiary Banks Division (+5.4%, or +53 million euro) and, finally, for the Private Banking Division (+13.8%, or +16 million euro), which in relative terms has a lesser impact on the consolidated accounts. The increase in the net interest expense of the Corporate Centre was mostly attributable to the absence of the time value effect and contractual interest following the deleveraging of bad loans undertaken at the end of 2018.

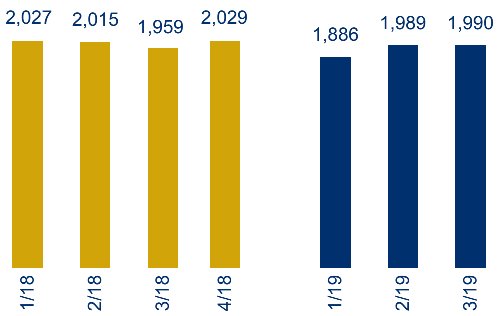
Net fee and commission income

(millions of euro)

	30.09.2019			30.09.2018			Changes	
	Income	Expense	Net	Income	Expense	Net	amount	%
Guarantees given / received	257	-88	169	281	-73	208	-39	-18.8
Collection and payment services	504	-161	343	483	-166	317	26	8.2
Current accounts	918	-	918	940	-	940	-22	-2.3
Credit and debit cards	826	-476	350	759	-440	319	31	9.7
Commercial banking activities	**2,505**	**-725**	**1,780**	**2,463**	**-679**	**1,784**	**-4**	**-0.2**
Dealing and placement of securities	695	-130	565	733	-150	583	-18	-3.1
Currency dealing	39	-2	37	39	-2	37	-	-
Portfolio management	2,218	-544	1,674	2,279	-544	1,735	-61	-3.5
Distribution of insurance products	1,050	-	1,050	1,120	-	1,120	-70	-6.3
Other	195	-38	157	182	-33	149	8	5.4
Management, dealing and consultancy activities	**4,197**	**-714**	**3,483**	**4,353**	**-729**	**3,624**	**-141**	**-3.9**
Other fee and commission	**755**	**-153**	**602**	**783**	**-190**	**593**	**9**	**1.5**
Total	**7,457**	**-1,592**	**5,865**	**7,599**	**-1,598**	**6,001**	**-136**	**-2.3**

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

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



Net fee and commission income for the first nine months of 2019, which makes up approximately 43% of operating income, came to 5,865 million euro, down by 2.3% compared to the same period in 2018 owing to the lesser contribution of management, dealing and financial consultancy activities. In particular, there were declines in fee and commission income on the distribution of insurance products (-6.3%), portfolio management schemes (-3.5%) and the dealing and placement of securities (-3.1%).
On the contrary, fee and commission income on traditional banking business was robust, with increases in collection and payment and ATM and credit card services, as was other fee and commission income, due to the lesser incidence of fee and commission expense on other banking services.
Overall, at the annual level net fee and commission income recovered progressively on -7% in the first quarter and -4.1% in the first half of the year.

(millions of euro)

	2019			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Guarantees given / received	58	56	55	3.6	1.8
Collection and payment services	114	119	110	-4.2	8.2
Current accounts	304	306	308	-0.7	-0.6
Credit and debit cards	125	118	107	5.9	10.3
Commercial banking activities	**601**	**599**	**580**	**0.3**	**3.3**
Dealing and placement of securities	190	195	180	-2.6	8.3
Currency dealing	13	12	12	8.3	-
Portfolio management	571	561	542	1.8	3.5
Distribution of insurance products	363	361	326	0.6	10.7
Other	56	51	50	9.8	2.0
Management, dealing and consultancy activities	**1,193**	**1,180**	**1,110**	**1.1**	**6.3**
Other net fee and commission income	**196**	**210**	**196**	**-6.7**	**7.1**
Net fee and commission income	**1,990**	**1,989**	**1,886**	**0.1**	**5.5**

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

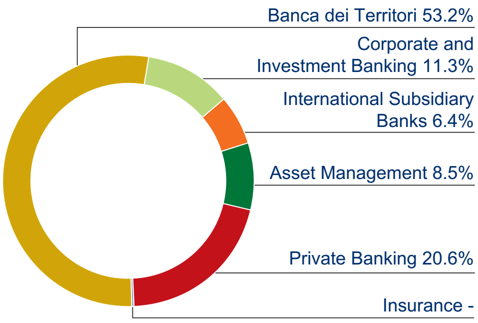
At the quarterly level, fee and commission income was in line with the previous quarter and higher than in the first quarter of 2019, primarily due to the greater fee and commission income on management, dealing and consultancy activities.

(millions of euro)

	30.09.2019	30.09.2018	Changes	
			amount	%
Banca dei Territori	3,302	3,404	-102	-3.0
Corporate and Investment Banking	698	739	-41	-5.5
International Subsidiary Banks	397	390	7	1.8
Private Banking	1,276	1,270	6	0.5
Asset Management	527	532	-5	-0.9
Insurance	-	-	-	-
Total business areas	**6,200**	**6,335**	**-135**	**-2.1**
Corporate Centre	-335	-334	1	0.3
Intesa Sanpaolo Group	**5,865**	**6,001**	**-136**	**-2.3**

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

Business areas
Net fee and commission income



With regard to business areas, the Banca dei Territori Division, which accounts for over half the fee and commission income of the business units, recorded a decrease (-3%, or -102 million euro) in fee and commission income, specifically that deriving from asset management and bancassurance. A decrease was also recorded in Corporate and Investment Banking (-5.5%, or -41 million euro), mainly due to the performance of the commercial banking segment, and Asset Management (-0.9%, or -5 million euro), particularly management and placement fees. By contrast, fee and commission income increased for the International Subsidiary Banks Division (+1.8% or +7 million euro) and Private Banking Division (+0.5% or +6 million euro).

Income from insurance business

(millions of euro)

Captions (a)	30.09.2019			30.09.2018			Changes	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**127**	**113**	**240**	**101**	**95**	**196**	**44**	**22.4**
Net insurance premiums (b)	6,962	373	7,335	6,193	291	6,484	851	13.1
Net charges for insurance claims and surrenders (c)	-4,815	-122	-4,937	-6,450	-73	-6,523	-1,586	-24.3
Net charges for changes in technical reserves (d)	-3,274	-2	-3,276	-501	-	-501	2,775	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	1,352	-	1,352	1,004	-	1,004	348	34.7
Net fees on investment contracts (f)	264	1	265	264	-	264	1	0.4
Commission expenses on insurance contracts (g)	-371	-101	-472	-391	-87	-478	-6	-1.3
Other technical income and expense (h)	9	-36	-27	-18	-36	-54	-27	-50.0
Net investment result	**593**	**14**	**607**	**684**	**13**	**697**	**-90**	**-12.9**
Operating income from investments	8,136	14	8,150	1,362	13	1,375	6,775	
Net interest income	*1,307*	*3*	*1,310*	*1,351*	*2*	*1,353*	*-43*	*-3.2*
Dividends	*197*	*2*	*199*	*191*	*3*	*194*	*5*	*2.6*
Gains/losses on disposal	*1,307*	*9*	*1,316*	*701*	*8*	*709*	*607*	*85.6*
Valuation gains/losses	*5,383*	*-*	*5,383*	*-825*	*-*	*-825*	*6,208*	
Portfolio management fees paid (i)	*-58*	*-*	*-58*	*-56*	*-*	*-56*	*2*	*3.6*
Gains (losses) on investments pertaining to insured parties	-7,543	-	-7,543	-678	-	-678	6,865	
Insurance products (j)	*-1,391*	*-*	*-1,391*	*-967*	*-*	*-967*	*424*	*43.8*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*10*	*-*	*10*	*-37*	*-*	*-37*	*47*	
Investment products (l)	*-6,162*	*-*	*-6,162*	*326*	*-*	*326*	*-6,488*	
Income from insurance business gross of consolidation effects	**720**	**127**	**847**	**785**	**108**	**893**	**-46**	**-5.2**
Consolidation effects	29	-	29	-47	-	-47	76	
Income from insurance business	**749**	**127**	**876**	**738**	**108**	**846**	**30**	**3.5**

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.

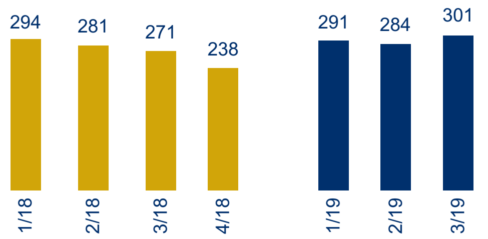
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

(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 nine months of 2019, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was up 3.5% on the same period of 2018 to 876 million euro. The decrease in the net investment result, driven by the greater retrocession of the returns on investments to policyholders in relation to operating income from investments, was accompanied by growth of the technical margin of both the life and the non-life business.

(millions of euro)

Captions (a)	**2019**			**Changes %**	
	Third quarter (A)	**Second quarter (B)**	**First quarter (C)**	**(A/B)**	**(B/C)**
Technical margin	**91**	**89**	**60**	**2.2**	**48.3**
Net insurance premiums (b)	2,572	2,258	2,505	13.9	-9.9
Net charges for insurance claims and surrenders (c)	-1,382	-1,667	-1,888	-17.1	-11.7
Net charges for changes in technical reserves (d)	-1,455	-788	-1,033	84.6	-23.7
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	423	364	565	16.2	-35.6
Net fees on investment contracts (f)	109	59	97	84.7	-39.2
Commission expenses on insurance contracts (g)	-166	-139	-167	19.4	-16.8
Other technical income and expense (h)	-10	2	-19		
Net investment result	**209**	**192**	**206**	**8.9**	**-6.8**
Operating income from investments	1,898	3,153	3,099	-39.8	1.7
Net interest income	*437*	*450*	*423*	-2.9	6.4
Dividends	*58*	*86*	*55*	-32.6	56.4
Gains/losses on disposal	*531*	*474*	*311*	12.0	52.4
Valuation gains/losses	*893*	*2,162*	*2,328*	-58.7	-7.1
Portfolio management fees paid (i)	*-21*	*-19*	*-18*	10.5	5.6
Gains (losses) on investments pertaining to insured parties	-1,689	-2,961	-2,893	-43.0	2.4
Insurance products (j)	*-417*	*-380*	*-594*	9.7	-36.0
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-10*	*10*	*10*		-
Investment products (l)	*-1,262*	*-2,591*	*-2,309*	-51.3	12.2
Income from insurance business gross of consolidation effects	**300**	**281**	**266**	**6.8**	**5.6**
Consolidation effects	1	3	25	-66.7	-88.0
Income from insurance business	**301**	**284**	**291**	**6.0**	**-2.4**

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

For notes, see the previous table

Income from insurance business, including both the life and non-life business, was higher in the third quarter of 2019 than in the previous two quarters.

(millions of euro)

Business	Periodic premiums 30.09.2019	Single premiums 30.09.2019	Total 30.09.2019	*of which new business* 30.09.2019	30.09.2018
Life insurance business	**124**	**6,838**	**6,962**	***6,838***	**6,194**
Premiums issued on traditional products	99	5,868	5,967	*5,868*	5,730
Premiums issued on unit-linked products	18	489	507	*489*	7
Premiums issued on capitalisation products	-	1	1	*1*	-
Premiums issued on pension funds	7	480	487	*480*	457
Non-life insurance business	**186**	**205**	**391**	***120***	**300**
Premiums issued	224	245	469	*290*	362
Change in premium reserves	-38	-40	-78	*-170*	-62
Premiums ceded to reinsurers	**-5**	**-13**	**-18**	***-11***	**-10**
Net premiums from insurance products	**305**	**7,030**	**7,335**	***6,947***	**6,484**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	62	6,125	6,187	*6,129*	9,354
Total business from investment contracts	**62**	**6,125**	**6,187**	***6,129***	**9,354**
Total business	**367**	**13,155**	**13,522**	***13,076***	**15,838**

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

Business in the insurance segment remained at high levels in the first nine months of 2019, at 13.5 billion euro, though below that of the same period in the previous year. Traditional life business policies came to 6 billion euro, up on the same period of 2018, whereas class III policies of a primarily financial nature amounted to 6.2 billion euro, significantly lower than the business generated in the first nine months of the previous year. Growth of open pension funds and above all the non-life business continues, with new business reaching 391 million euro.
New business was nearly 13.1 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

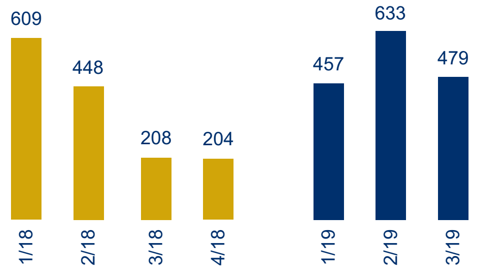
Profits (Losses) on financial assets and liabilities designated at fair value

(millions of euro)

	30.09.2019	30.09.2018	Changes amount	Changes %
Interest rates	132	294	-162	-55.1
Equity instruments	266	395	-129	-32.7
Currencies	79	50	29	58.0
Structured credit products	28	4	24	
Credit derivatives	-17	30	-47	
Commodity derivatives	11	10	1	10.0
Income from operations on assets designated at fair value through profit or loss	**499**	**783**	**-284**	**-36.3**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	1,070	482	588	
Profits (Losses) on financial assets and liabilities designated at fair value	**1,569**	**1,265**	**304**	**24.0**

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

Quarterly development
Profits (Losses) on financial assets and liabilities designated at fair value
(millions of euro)



Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,569 million euro, compared with 1,265 million euro in the first nine months of 2018, which also included the gross capital gain of 264 million euro on the sale of the equity investment in NTV. The greatest contribution was provided by profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities (+588 million euro), which benefited in particular from dealings in securities accounted for in OCI (other comprehensive income), whereas the contribution of assets mandatorily measured at fair value was lower. This result was due to the strengthening of transactions on financial assets - through an internal reorganisation implemented to focus the Treasury department on the management of the liquidity portfolio and to concentrate the integrated management of the other portfolios at Banca IMI, within overall risk limits almost unchanged - to both capture market opportunities and benefit from natural hedging against the unfavourable effects on net fee and commission income of market volatility, structurally increasing the total contribution of the securities portfolio management, including net interest income, to the Group's revenues.

(millions of euro)

	2019			Changes %	
	Third quarter (A)	**Second quarter (B)**	**First quarter (C)**	**(A/B)**	**(B/C)**
Interest rates	51	156	-75	-67.3	
Equity instruments	61	118	87	-48.3	35.6
Currencies	9	32	38	-71.9	-15.8
Structured credit products	5	7	16	-28.6	-56.3
Credit derivatives	1	-24	6		
Commodity derivatives	7	1	3		-66.7
Income from operations on assets designated at fair value through profit or loss	**134**	**290**	**75**	**-53.8**	
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	345	343	382	0.6	-10.2
Income (Losses) on financial assets and liabilities designated at fair value	**479**	**633**	**457**	**-24.3**	**38.5**

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

The figure for the third quarter of 2019 was slightly higher than in the first quarter, but lower than in the second quarter.

Other operating income (expenses)

Other operating income amounted to 14 million euro, compared with the 44 million in the same period of the previous year. 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 decrease on the first nine months of 2018 was solely due to the former component, which in the previous year included the share of income recognised from third parties by the subsidiary SEC, reclassified to discontinued operations in the second half of the year.

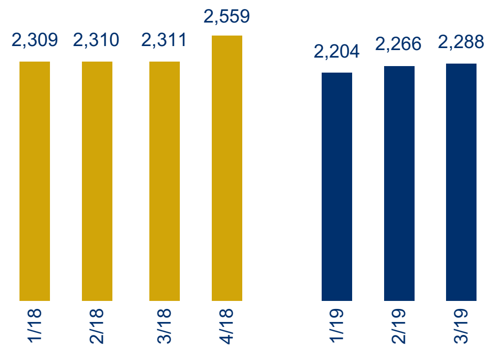
Operating costs

(millions of euro)

	30.09.2019	30.09.2018	Changes	
			amount	%
Wages and salaries	2,904	2,988	-84	-2.8
Social security charges	742	764	-22	-2.9
Other	580	542	38	7.0
Personnel expenses	**4,226**	**4,294**	**-68**	**-1.6**
Information technology expenses	500	499	1	0.2
Management of real estate assets expenses	241	274	-33	-12.0
General structure costs	273	286	-13	-4.5
Professional and legal expenses	207	253	-46	-18.2
Advertising and promotional expenses	76	81	-5	-6.2
Indirect personnel costs	53	55	-2	-3.6
Other costs	328	332	-4	-1.2
Indirect taxes and duties	665	688	-23	-3.3
Recovery of expenses and charges	-584	-602	-18	-3.0
Administrative expenses	**1,759**	**1,866**	**-107**	**-5.7**
Property and equipment	374	399	-25	-6.3
Intangible assets	399	371	28	7.5
Adjustments	**773**	**770**	**3**	**0.4**
Operating costs	**6,758**	**6,930**	**-172**	**-2.5**

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

Quarterly development
Operating costs
(millions of euro)



Operating costs continued to improve in the first nine months of 2019, amounting to 6,758 million euro, a decrease of 2.5% on the figure for the same period of 2018.
Personnel expenses amounted to 4,226 million euro, down by 1.6%, driven by staff downsizing, the savings from which were more than enough to offset the cost increase relating to incentives for growth.
Administrative expenses of 1,759 million euro (-5.7%) presented extensive savings, particularly on legal and professional fees (-46 million euro), real estate management (-33 million euro) and general structure costs (-13 million euro).
Depreciation and amortisation of property and equipment and intangible assets, which following the entry into force of the new standard IFRS 16 also include the rights of use (RoUs) acquired under operating leases, remained at the same levels as in the first nine months of 2018.
The cost/income ratio for the period decreased to 49.8% from 50.6% in the same period of 2018 due to careful cost management, while revenues remained essentially stable.

(millions of euro)

	2019			Changes %	
	Third quarter (A)	**Second quarter (B)**	**First quarter (C)**	**(A/B)**	**(B/C)**
Wages and salaries	980	976	948	0.4	3.0
Social security charges	248	248	246	-	0.8
Other	193	194	193	-0.5	0.5
Personnel expenses	**1,421**	**1,418**	**1,387**	**0.2**	**2.2**
Information technology expenses	173	161	166	7.5	-3.0
Management of real estate assets expenses	87	80	74	8.8	8.1
General structure costs	93	90	90	3.3	-
Professional and legal expenses	78	73	56	6.8	30.4
Advertising and promotional expenses	24	31	21	-22.6	47.6
Indirect personnel costs	14	19	20	-26.3	-5.0
Other costs	112	118	98	-5.1	20.4
Indirect taxes and duties	220	222	223	-0.9	-0.4
Recovery of expenses and charges	-195	-198	-191	-1.5	3.7
Administrative expenses	**606**	**596**	**557**	**1.7**	**7.0**
Property and equipment	125	119	130	5.0	-8.5
Intangible assets	136	133	130	2.3	2.3
Adjustments	**261**	**252**	**260**	**3.6**	**-3.1**
Operating costs	**2,288**	**2,266**	**2,204**	**1.0**	**2.8**

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

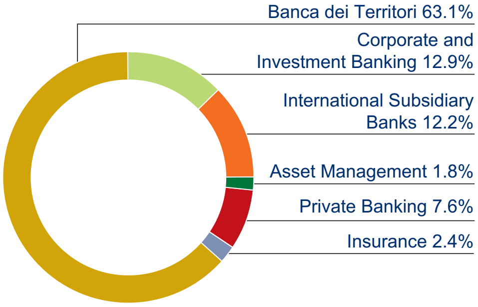
At the quarterly level, operating costs in the third quarter were higher than in the first and second quarters of 2019.

(millions of euro)

	30.09.2019	30.09.2018	Changes	
			amount	**%**
Banca dei Territori	3,735	3,989	-254	-6.4
Corporate and Investment Banking	764	759	5	0.7
International Subsidiary Banks	721	722	-1	-0.1
Private Banking	448	426	22	5.2
Asset Management	108	113	-5	-4.4
Insurance	145	131	14	10.7
Total business areas	**5,921**	**6,140**	**-219**	**-3.6**
Corporate Centre	837	790	47	5.9
Intesa Sanpaolo Group	**6,758**	**6,930**	**-172**	**-2.5**

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

Business areas
Operating costs



At the level of operating costs, the Banca dei Territori Division, which accounts for over 60% of all costs for the business areas, reported considerable savings compared to the first nine months of the previous year (-6.4%, or -254 million euro) thanks to lower administrative expenses, due to lower service costs, and personnel expenses, due to the reduction in the average workforce. Asset Management also decreased (-4.4%, or -5 million euro) due to the reduction in administrative expenses. By contrast, operating costs increased for Private Banking (+5.2%, or +22 million euro), due to personnel expenses and amortisation and depreciation, Insurance (+10.7%, or +14 million euro), due to the performance of all cost components, mostly attributable to initiatives relating to development of the non-life business, and Corporate and Investment Banking (+0.7%, or +5 million euro), due to greater personnel expenses.
The International Subsidiary Banks reported operating costs essentially in line with those of the same period of 2018.

Operating margin

The operating margin amounted to 6,824 million euro, an annual increase for the first time in the current year (+0.9% on the first nine months of 2018), due to the reduction in operating costs. If the gross capital gain of 264 million euro on NTV is excluded from the 2018 base, the operating margin was up by 5%.

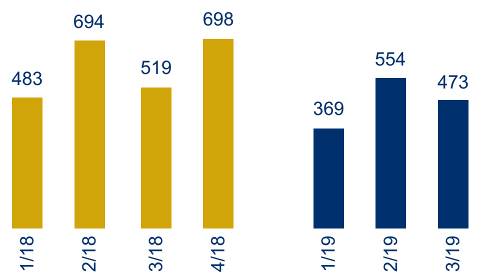
Net adjustments to loans

(millions of euro)

	30.09.2019	30.09.2018	Changes	
			amount	%
Bad loans	-531	-799	-268	-33.5
Unlikely to pay	-842	-1,025	-183	-17.9
Past due loans	-252	-290	-38	-13.1
Stage 3 loans	**-1,625**	**-2,114**	**-489**	**-23.1**
of which debt securities	*-*	*-3*	*-3*	
Stage 2 loans	**-68**	**115**	**-183**	
of which debt securities	*-12*	*3*	*-15*	
Stage 1 loans	**237**	**250**	**-13**	**-5.2**
of which debt securities	*11*	*18*	*-7*	*-38.9*
Net losses/recoveries on impairment of loans	**-1,456**	**-1,749**	**-293**	**-16.8**
Profits/losses from changes in contracts without derecognition	**-8**	**-4**	**4**	
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**68**	**57**	**11**	**19.3**
Net adjustments to loans	**-1,396**	**-1,696**	**-300**	**-17.7**

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

Quarterly development
Net adjustments to loans
(millions of euro)



In the first nine months of 2019, net adjustments to loans amounted to 1,396 million euro, down significantly from the 1,696 million euro recorded in the same period of the previous year. This 17.7% decrease was due to lower adjustments to Stage 3 non-performing loans (-489 million euro, of which -268 million euro associated with bad loans, -183 million euro with unlikely-to-pay loans and -38 million euro with past-due loans), only partly offset by greater net adjustments to Stage 2 loans (183 million euro) and a decline in recoveries on the Stage 1 loan portfolio of 13 million euro. Non-performing loans continued to decline as a percentage of total loans in the first nine months of 2019; the cost of credit, expressed as the ratio of net adjustments to net loans, amounted to 47 basis points, lower than both the same period in 2018 (57 basis points) and the previous year (61 basis points).

Total coverage of non-performing loans amounted to 54.8%. In detail, bad loans required total net adjustments of 531 million euro, compared to 799 million euro in the first nine months of 2018, with a coverage ratio of 65.3%. Net impairment losses on unlikely to pay loans, totalling 842 million euro, were down by 17.9%, with a coverage ratio of 37.6%. Net impairment losses on past due loans amounted to 252 million euro, with a coverage ratio of 25.1%. The coverage ratio for forborne positions within the non-performing loans category was 43.1% at the end of September 2019. Finally, the coverage ratio of performing loans was 0.5%.

(millions of euro)

	2019			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Bad loans	-175	-193	-163	-9.3	18.4
Unlikely to pay	-300	-286	-256	4.9	11.7
Past due loans	-90	-78	-84	15.4	-7.1
Stage 3 loans	**-565**	**-557**	**-503**	**1.4**	**10.7**
of which debt securities	-	-	-	-	-
Stage 2 loans	**43**	**-76**	**-35**		
of which debt securities	-	-9	-3		
Stage 1 loans	**26**	**72**	**139**	**-63.9**	**-48.2**
of which debt securities	10	1	-		-
Net losses/recoveries on impairment of loans	**-496**	**-561**	**-399**	**-11.6**	**40.6**
Profits/losses from changes in contracts without derecognition	**-6**	**-1**	**-1**		**-**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**29**	**8**	**31**		**-74.2**
Net adjustments to loans	**-473**	**-554**	**-369**	**-14.6**	**50.1**

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

The third quarter of 2019 showed higher adjustments to loans than in the first quarter of the year, but lower than in the second quarter of 2019.

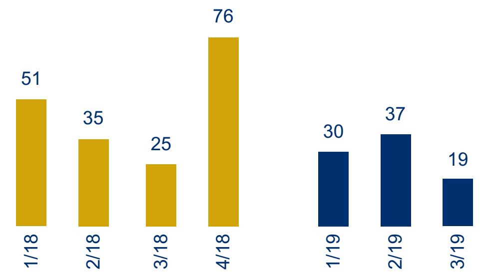
Other net provisions and net impairment losses on other assets

(millions of euro)

	30.09.2019	30.09.2018	Changes	
			amount	%
Other net provisions	-72	-95	-23	-24.2
Net impairment losses on instruments designated at fair value through other comprehensive income	-8	-1	7	
Net impairment losses on other assets	-4	-12	-8	-66.7
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-2	-3	-1	-33.3
Other net provisions and net impairment losses on other assets	**-86**	**-111**	**-25**	**-22.5**

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)



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 nine months of 2019, other net provisions and net impairment losses on other assets amounted to 86 million euro, compared with the 111 million euro recognised in the same period of 2018. The decrease should essentially be viewed in conjunction with the lower net provisions for risks and charges.

(millions of euro)

	2019			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Other net provisions	-24	-34	-14	-29.4	
Net impairment losses on instruments designated at fair value through other comprehensive income	7	-7	-8		-12.5
Net impairment losses on other assets	-1	4	-7		
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-1	-	-1	-	
Other net provisions and net impairment losses on other assets	**-19**	**-37**	**-30**	**-48.6**	**23.3**

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 reporting period, other income amounted to 5 million euro, compared with net expenses of 1 million euro in the same period in the previous year.

Gross income (loss)

Income before tax from continuing operations came to 5,347 million euro, up 8% on the first nine months of 2018. If the gross capital gain of 264 million euro on NTV is excluded from the 2018 base, gross income was up by more than 14%.

Taxes on income

Current and deferred taxes came to 1,521 million euro for an effective tax rate of 28.4%, compared with 29.8% in the same period in 2018, also due to the already mentioned realignment of tax values, as illustrated in the Half-yearly Report as at 30 June 2019.

Charges (net of tax) for integration and exit incentives

This caption amounted to 79 million euro, compared with 66 million euro reported in the same period of 2018.

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 nine months of 2019, these costs amounted to 106 million euro, essentially in line with the same period of 2018.

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. These costs increased on the first nine months of the previous year, net of taxes, from -309 to -338 million euro, broken down into -217 million euro attributable to resolution funds, -98 million euro to deposit guarantee funds, -32 million euro to levies recognised by international subsidiary banks and 9 million euro to recovery from the Atlante Fund.

Minority interests

The minority interest share of net losses of companies within the scope of line-by-line consolidation amounted to 7 million euro for the reporting period, compared with 19 million euro in the same period of 2018.

Net income (loss)

As a result of the above trends, the Group ended the first nine months of 2019 with net income of 3,310 million euro, up 9.9% from the 3,012 million euro reported in the same period of 2018. The Intesa Sanpaolo Group’s performance has thus gradually accelerated over the course of the current year, supported by robust revenues, cost containment and focus on credit quality.

Balance sheet aggregates

General aspects

A condensed balance sheet has been 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 2019 aimed at providing an account of the effects of the first-time adoption of IFRS 16 and thus at permitting a consistent comparison for the captions affected by the new financial reporting standard.

In the interest of consistent comparison, the figures for previous periods are also restated, where necessary and material, to account for changes in the scope of consolidation. The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.

Certain aggregations and reclassifications have been made with respect to the model provided in Circular 262/05 of the Bank of Italy. 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 pursuant to IAS 39, in application of the deferral approach, by the Group's insurance companies;
- the aggregation in one single caption of Property and equipment and Intangible assets, broken down into the sub-captions Assets owned and Rights of use acquired under lease;
- 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 consolidation, within Other assets, of the financial and intangible components of the motorway concession held by Autostrade Lombarde (through its subsidiary Brebemi), in view of the close management correlation between the two components – considering that the value of the motorway concession is represented by the sum of the two – and the difference between the business conducted by the Autostrade Lombarde Group and that of the companies operating within the Intesa Sanpaolo Group;
- 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 reclassification of Lease payables to a specific sub-caption of Other liabilities;
- the presentation of Reserves as an aggregate and net of any treasury shares.

Reclassified balance sheet

(millions of euro)

Assets	30.09.2019	01.01.2019	Changes	
			amount	%
Due from banks	71,958	68,723	3,235	4.7
Loans to customers	395,193	393,550	*1,643*	*0.4*
Loans to customers measured at amortised cost	*394,289*	*392,945*	*1,344*	*0.3*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*904*	*605*	*299*	*49.4*
Financial assets measured at amortised cost which do not constitute loans	24,104	14,183	9,921	69.9
Financial assets at fair value through profit or loss	54,542	41,536	13,006	31.3
Financial assets at fair value through other comprehensive income	75,052	60,441	14,611	24.2
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	167,034	149,546	17,488	11.7
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	570	952	-382	-40.1
Investments in associates and companies subject to joint control	1,113	943	170	18.0
Property, equipment and intangible assets	16,889	17,081	-192	-1.1
Assets owned	*15,347*	*15,452*	*-105*	*-0.7*
Rights of use acquired under leases	*1,542*	*1,629*	*-87*	*-5.3*
Tax assets	15,555	17,253	-1,698	-9.8
Non-current assets held for sale and discontinued operations	2,554	1,297	1,257	96.9
Other assets	24,154	23,811	343	1.4
Total Assets	**848,718**	**789,316**	**59,402**	**7.5**

Liabilities	30.09.2019	01.01.2019	Changes	
			amount	%
Due to banks at amortised cost	119,359	107,815	11,544	10.7
Due to customers at amortised cost and securities issued	415,128	405,960	9,168	2.3
Financial liabilities held for trading	53,938	41,895	12,043	28.7
Financial liabilities designated at fair value	4	4	-	-
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	879	810	69	8.5
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	74,405	67,800	6,605	9.7
Tax liabilities	2,561	2,433	128	5.3
Liabilities associated with non-current assets held for sale and discontinued operations	256	258	-2	-0.8
Other liabilities	32,236	20,859	11,377	54.5
of which lease payables	*1,523*	*1,603*	*-80*	*-5.0*
Technical reserves	89,237	80,797	8,440	10.4
Allowances for risks and charges	5,164	6,254	-1,090	-17.4
of which allowances for commitments and financial guarantees given	*423*	*510*	*-87*	*-17.1*
Share capital	9,086	9,085	1	-
Reserves	38,197	37,690	507	1.3
Valuation reserves	-194	-913	-719	-78.8
Valuation reserves pertaining to insurance companies	727	9	718	
Equity instruments	4,103	4,103	-	-
Minority interests	322	407	-85	-20.9
Net income (loss)	3,310	4,050	-740	-18.3
Total liabilities and shareholders' equity	**848,718**	**789,316**	**59,402**	**7.5**

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	2019				2018			
	30/9	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due from banks	71,958	77,141	85,515	68,723	68,723	71,178	69,876	70,646
Loans to customers	395,193	394,253	395,595	393,550	393,550	395,265	399,704	400,958
Loans to customers measured at amortised cost	*394,289*	*393,243*	*394,990*	*392,945*	*392,945*	*394,543*	*399,083*	*400,344*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*904*	*1,010*	*605*	*605*	*605*	*722*	*621*	*614*
Financial assets measured at amortised cost which do not constitute loans	24,104	20,396	19,995	14,183	14,183	12,528	12,181	11,688
Financial assets at fair value through profit or loss	54,542	52,693	47,626	41,536	41,536	41,377	42,158	42,115
Financial assets at fair value through other comprehensive income	75,052	65,996	66,406	60,441	60,441	67,174	61,836	60,556
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	167,034	159,171	155,240	149,546	149,546	153,350	152,229	153,550
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	570	568	702	952	952	638	682	476
Investments in associates and companies subject to joint control	1,113	1,071	1,075	943	943	592	602	608
Property, equipment and intangible assets	16,889	16,895	16,899	17,081	15,474	14,352	14,410	14,400
Assets owned	*15,347*	*15,325*	*15,317*	*15,452*				
Rights of use acquired under leases	*1,542*	*1,570*	*1,582*	*1,629*				
Tax assets	15,555	16,120	16,854	17,253	17,253	17,116	17,120	17,354
Non-current assets held for sale and discontinued operations	2,554	803	1,236	1,297	1,297	3,694	3,609	751
Other assets	24,154	23,258	22,137	23,811	23,823	21,697	21,288	22,046
Total Assets	**848,718**	**828,365**	**829,280**	**789,316**	**787,721**	**798,961**	**795,695**	**795,148**

Liabilities	2019				2018			
	30/9	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due to banks at amortised cost	119,359	120,077	123,165	107,815	107,815	107,551	99,059	98,313
Due to customers at amortised cost and securities issued	415,128	411,588	416,505	405,960	405,960	417,801	424,836	417,731
Financial liabilities held for trading	53,938	51,187	48,433	41,895	41,895	39,866	39,482	39,753
Financial liabilities designated at fair value	4	4	4	4	4	4	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	879	847	846	810	810	905	1,413	1,394
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	74,405	72,027	70,955	67,800	67,800	71,069	70,337	69,058
Tax liabilities	2,561	2,056	2,675	2,433	2,433	2,229	2,145	2,577
Liabilities associated with non-current assets held for sale and discontinued operations	256	254	260	258	258	312	261	266
Other liabilities	32,236	26,483	22,675	20,859	19,264	19,370	20,190	21,073
of which lease payables	*1,523*	*1,547*	*1,553*	*1,603*				
Technical reserves	89,237	84,710	82,508	80,797	80,797	80,449	79,842	82,656
Allowances for risks and charges	5,164	5,260	5,694	6,254	6,254	6,566	6,877	7,242
of which allowances for commitments and financial guarantees given	*423*	*450*	*449*	*510*	*510*	*490*	*473*	*503*
Share capital	9,086	9,086	9,085	9,085	9,085	9,084	8,732	8,732
Reserves	38,197	38,232	41,704	37,690	37,690	37,949	37,212	40,796
Valuation reserves	-194	-474	-877	-913	-913	-1,631	-1,366	-760
Valuation reserves pertaining to insurance companies	727	322	137	9	9	-44	3	429
Equity instruments	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103
Minority interests	322	337	358	407	407	366	386	529
Net income (loss)	3,310	2,266	1,050	4,050	4,050	3,012	2,179	1,252
Total Liabilities and Shareholders' Equity	**848,718**	**828,365**	**829,280**	**789,316**	**787,721**	**798,961**	**795,695**	**795,148**

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

BANKING BUSINESS

Loans to customers

Loans to customers: breakdown

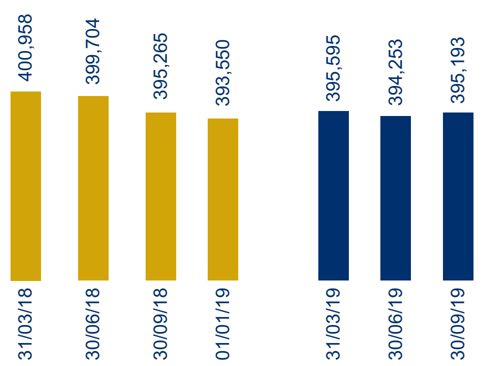
(millions of euro)

	30.09.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	20,749	5.2	21,927	5.7	-1,178	-5.4
Mortgages	176,612	44.7	176,821	44.9	-209	-0.1
Advances and other loans	146,071	37.0	139,458	35.4	6,613	4.7
Commercial banking loans	**343,432**	**86.9**	**338,206**	**86.0**	**5,226**	**1.5**
Repurchase agreements	**31,535**	**8.0**	**33,641**	**8.5**	**-2,106**	**-6.3**
Loans represented by securities	**5,943**	**1.5**	**5,112**	**1.3**	**831**	**16.3**
Non-performing loans	**14,283**	**3.6**	**16,591**	**4.2**	**-2,308**	**-13.9**
Loans to customers	**395,193**	**100.0**	**393,550**	**100.0**	**1,643**	**0.4**

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

The Group's loans to customers exceeded 395 billion euro as at 30 September 2019, marking a year-to-date increase of 1.6 billion euro, or +0.4%. The stability of the aggregate was due to commercial banking loans (+5.2 billion euro or +1.5%), within which the growth of loans and advances (+6.6 billion euro, or +4.7%) offset the decrease in current accounts (-1.2 billion euro, or -5.4%); mortgage loans were essentially stable (-0.2 billion euro, or -0.1%), owing to the recovery in the third quarter. The performance of loans to customers was also affected by the decline in repurchase agreements (-2.1 billion euro) and non-performing loans (-2.3 billion euro), due in part to the effects of the Prelios transaction (-1.7 billion euro), against the growth of loans represented by securities (+831 million euro).
In the domestic medium-/long-term loan market, disbursements to households in the first nine months of 2019 (including the small business accounts having similar needs to family businesses) amounted to approximately 11.8 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 8.8 billion euro. During the period, medium/long-term disbursements to segments included in the scope of the Corporate Division amounted to 11.1 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy amounted to 32.1 billion euro. On the whole, medium-/long-term disbursements for the Group in the first nine months of 2019, including the international subsidiary banks' operations, reached 39.2 billion euro.
As at 30 September 2019, the Group's share of the Italian domestic market was estimated at 17.2% 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 September are not yet available.

Quarterly development
Loans to customers
(millions of euro)

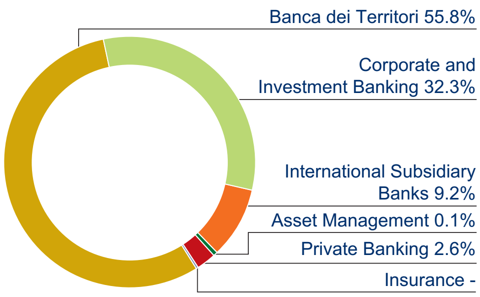


(millions of euro)

	30.09.2019	01.01.2019	Changes	
			amount	%
Banca dei Territori	203,311	211,491	-8,180	-3.9
Corporate and Investment Banking	117,451	110,642	6,809	6.2
International Subsidiary Banks	33,616	31,538	2,078	6.6
Private Banking	9,464	9,530	-66	-0.7
Asset Management	245	228	17	7.5
Insurance	-	-	-	-
Total business areas	**364,087**	**363,429**	**658**	**0.2**
Corporate Centre	31,106	30,121	985	3.3
Intesa Sanpaolo Group	**395,193**	**393,550**	**1,643**	**0.4**

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

Business areas
Loans to customers



In the analysis of loans by business area, the Banca dei Territori Division, which accounts for 56% of the aggregate of the Group's business areas, recorded a decrease of 8.2 billion euro year-to-date (-3.9%), due to the drop in both the short- and medium-/long-term components, especially to businesses. The Corporate and Investment Banking Division's loans grew by 6.8 billion euro (+6.2%), mainly due to the global markets and structured finance segments, which more than offset the decrease in business with global corporate and international customers. The loans of the International Subsidiary Banks Division grew by 2.1 billion euro (+6.6%) specifically due to the increase in the loans issued by the subsidiaries operating in Slovakia, Egypt, Hungary and Serbia. Turning to the other divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division, primarily short-term loans, decreased slightly (-0.7%), mainly due to the reduction in the margins securing repurchase agreements.
The growth at the level of the Corporate Centre is essentially attributable to loans to institutional counterparties.

Loans to customers: credit quality

(millions of euro)

	30.09.2019		01.01.2019		Change
	Net exposure	**% breakdown**	**Net exposure**	**% breakdown**	**Net exposure**
Bad loans	6,924	1.8	7,138	1.8	-214
Unlikely to pay	7,006	1.8	9,101	2.4	-2,095
Past due loans	353	-	352	-	1
Non-Performing Loans	**14,283**	**3.6**	**16,591**	**4.2**	**-2,308**
Non-performing loans in Stage 3 (subject to impairment)	*14,222*	*3.6*	*16,531*	*4.2*	*-2,309*
Non-performing loans designated at fair value through profit or loss	*61*	*-*	*60*	*-*	*1*
Performing loans	**374,936**	**94.9**	**371,772**	**94.5**	**3,164**
Stage 2	*39,915*	*10.1*	*42,564*	*10.8*	*-2,649*
Stage 1	*334,376*	*84.6*	*328,766*	*83.6*	*5,610*
Performing loans designated at fair value through profit or loss	*645*	*0.2*	*442*	*0.1*	*203*
Performing loans represented by securities	**5,943**	**1.5**	**5,112**	**1.3**	**831**
Stage 2	*1,783*	*0.5*	*970*	*0.2*	*813*
Stage 1	*4,160*	*1.1*	*4,142*	*1.1*	*18*
Loans held for trading	**31**	**-**	**75**	**-**	**-44**
Total loans to customers	**395,193**	**100.0**	**393,550**	**100.0**	**1,643**
of which forborne performing	***6,825***		***7,937***		***-1,112***
of which forborne non-performing	***4,086***		***5,437***		***-1,351***
Loans to customers classified as discontinued operations (*)	**2,189**		**934**		**1,255**

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

(*) As at 30 September 2019, this caption included the portfolio of bad loans, unlikely-to-pay loans soon to be sold (gross exposure of 72 million euro, total adjustments of 31 million euro, net exposure of 41 million euro) and the so-called “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 the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 393 million euro, total adjustments of 55 million euro, net exposure of 338 million euro) and the loans soon to be sold to Prelios (gross exposure of 2,797 million euro, total adjustments of 987 million euro, net exposure of 1,810 million euro).

As at 30 September 2019, the Group's net non-performing loans amounted to 14.3 billion euro, down by 13.9% compared with the beginning of the year, also due to the posting under discontinued operations of the loans and receivables to be sold shortly to Prelios. Non-performing assets decreased as a percentage of total net loans to customers, down to 3.6%, while the coverage ratio for non-performing loans remained high at 54.8%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, at the end of September 2019 bad loans came to 6.9 billion euro net of adjustments (down by -214 million euro on the beginning of the year, or -3%), and represented 1.8% of total loans. During the same period, the coverage ratio stood at 65.3%. Loans included in the unlikely-to-pay category amounted to 7 billion euro, down by 23%, accounting for 1.8% of total loans to customers, with a coverage ratio of 37.6%. Past due loans amounted to 353 million euro, substantially at the same level as the beginning of the year, with a coverage ratio of 25.1%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 4.1 billion euro, with a coverage ratio of 43.1%, while forborne exposures in the performing loans category amounted to 6.8 billion euro.
Overall, the coverage ratio of performing loans amounted to 0.5%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

Other banking business financial assets and liabilities: breakdown

(millions of euro)

Type of financial instruments	Other financial assets designated at fair value through profit or loss	Other financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL financial assets	Financial liabilities held for trading (*)
Debt securities issued by Governments					
30.09.2019	14,196	61,314	12,786	**88,296**	X
01.01.2019	7,089	50,865	7,909	**65,863**	X
Changes amount	7,107	10,449	4,877	**22,433**	
Changes %		20.5	61.7	**34.1**	
Other debt securities					
30.09.2019	5,841	10,712	11,318	**27,871**	X
01.01.2019	5,205	6,415	6,274	**17,894**	X
Changes amount	636	4,297	5,044	**9,977**	
Changes %	12.2	67.0	80.4	**55.8**	
Equities					
30.09.2019	990	3,026	X	**4,016**	X
01.01.2019	776	3,161	X	**3,937**	X
Changes amount	214	-135	X	**79**	
Changes %	27.6	-4.3	X	**2.0**	
Quotas of UCI					
30.09.2019	2,487	X	X	**2,487**	X
01.01.2019	2,564	X	X	**2,564**	X
Changes amount	-77	X	X	**-77**	
Changes %	-3.0	X	X	**-3.0**	
Due to banks and to customers					
30.09.2019	X	X	X	X	-10,687
01.01.2019	X	X	X	X	-5,415
Changes amount	X	X	X	X	5,272
Changes %	X	X	X	X	97.4
Financial derivatives					
30.09.2019	30,059	X	X	**30,059**	-30,662
01.01.2019	25,186	X	X	**25,186**	-26,605
Changes amount	4,873	X	X	**4,873**	4,057
Changes %	19.3	X	X	**19.3**	15.2
Credit derivatives					
30.09.2019	969	X	X	**969**	-1,059
01.01.2019	716	X	X	**716**	-757
Changes amount	253	X	X	**253**	302
Changes %	35.3	X	X	**35.3**	39.9
TOTAL 30.09.2019	**54,542**	**75,052**	**24,104**	**153,698**	**-42,408**
TOTAL 01.01.2019	**41,536**	**60,441**	**14,183**	**116,160**	**-32,777**
Changes amount	**13,006**	**14,611**	**9,921**	**37,538**	**9,631**
Changes %	**31.3**	**24.2**	**69.9**	**32.3**	**29.4**

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 certificates which are included in the direct deposits from banking business table.

The table above shows the breakdown of other financial assets and liabilities, excluding insurance companies. Financial liabilities held for trading do not include certificates, which are included in the direct deposits from banking business aggregates.

The Intesa Sanpaolo Group's other financial assets, excluding those of the insurance companies, amounted to 154 billion euro, up by 32.3% compared with the beginning of the year, whereas financial liabilities held for trading came to 42 billion euro, up by 29.4% since 1 January 2019.
The increase in total financial assets was chiefly due to government debt securities (+22.4 billion euro, or +34.1%) and other debt securities (+10 billion euro, or +55.8%).

Financial assets measured at fair value through profit or loss amounted to 55 billion euro, marking an increase (+13 billion euro, or +31.3%) due to government debt securities (+7.1 billion euro) and financial derivatives (+4.9 billion euro).

Financial assets measured at fair value through other comprehensive income amounted to 75 billion euro, almost entirely classified to Stage 1, and were up by 24.2% during the nine months.

Instruments measured at amortised cost which do not constitute loans amounted to 24 billion euro, up by 69.9% due to the instruments classified to Stage 1, which accounted for over 86% of the total aggregate.

Debt securities: stage allocation

(millions of euro)

Debt securities: stage allocation	Other financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL
Stage 1			
30.09.2019	71,783	20,822	**92,605**
01.01.2019	57,033	10,935	**67,968**
Changes amount	14,750	9,887	**24,637**
Changes %	25.9	90.4	**36.2**
Stage 2			
30.09.2019	243	3,282	**3,525**
01.01.2019	247	3,243	**3,490**
Changes amount	-4	39	**35**
Changes %	-1.6	1.2	**1.0**
Stage 3			
30.09.2019	-	-	**-**
01.01.2019	-	5	**5**
Changes amount	-	-5	**-5**
Changes %	-	-	**-**
TOTAL 30.09.2019	**72,026**	**24,104**	**96,130**
TOTAL 01.01.2019	**57,280**	**14,183**	**71,463**
Changes amount	**14,746**	**9,921**	**24,667**
Changes %	**25.7**	**69.9**	**34.5**

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

Customer financial assets

(millions of euro)

	30.09.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	426,662	44.8	415,082	45.5	11,580	2.8
Direct deposits from insurance business and technical reserves	164,416	17.3	149,358	16.4	15,058	10.1
Indirect customer deposits	523,707	55.1	495,809	54.4	27,898	5.6
Netting (a)	-163,540	-17.2	-148,553	-16.3	14,987	10.1
Customer financial assets	**951,245**	**100.0**	**911,696**	**100.0**	**39,549**	**4.3**

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).

At 30 September 2019, customer financial assets reached 951 billion euro (+4.3%), showing significant growth across all components since the beginning of the year: indirect customer deposits increased by 27.9 billion euro, direct deposits from insurance business and technical reserves by 15.1 billion euro and direct deposits from banking business by 11.6 billion euro.

Direct deposits from banking business

The table below sets out amounts due to customers, securities issued, including those designated at fair value, and certificates, which represent an alternative form of funding to bonds.

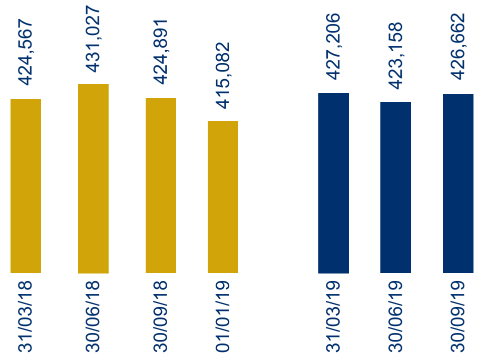
(millions of euro)

	30.09.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	308,927	72.4	290,587	70.0	18,340	6.3
Repurchase agreements and securities lending	12,023	2.8	24,105	5.8	-12,082	-50.1
Bonds	64,525	15.1	62,312	15.0	2,213	3.6
Certificates of deposit	5,020	1.2	5,151	1.2	-131	-2.5
Subordinated liabilities	10,126	2.4	10,782	2.6	-656	-6.1
Other deposits	26,041	6.1	22,145	5.4	3,896	17.6
of which designated at fair value (*)	*11,534*	*2.7*	*9,122*	*2.2*	*2,412*	*26.4*
Direct deposits from banking business	**426,662**	**100.0**	**415,082**	**100.0**	**11,580**	**2.8**

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)



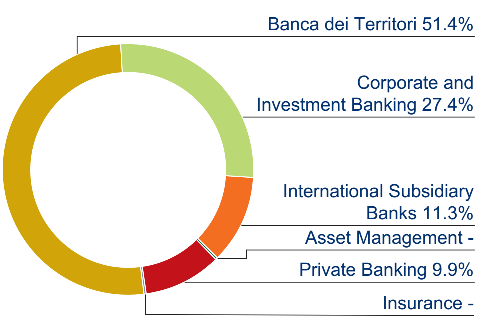
Direct deposits from banking business came to 427 billion euro, up by 2.8% on the beginning of the year.
Current accounts and deposits continued to record a very robust performance (+18.3 billion euro), given the propensity of customers to maintain a high level of liquidity. Other funding (+3.9 billion euro, including commercial papers and certificates) and bonds (+2.2 billion euro) also grew, whereas repurchase agreements and securities lending declined (-12.1 billion euro, largely attributable to institutional counterparties).
As at 30 September 2019, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18%. As described above with 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)

	30.09.2019	01.01.2019	Changes	
			amount	%
Banca dei Territori	194,916	191,588	3,328	1.7
Corporate and Investment Banking	103,906	102,449	1,457	1.4
International Subsidiary Banks	42,765	39,384	3,381	8.6
Private Banking	37,692	32,103	5,589	17.4
Asset Management	8	6	2	33.3
Insurance	-	-	-	-
Total business areas	**379,287**	**365,530**	**13,757**	**3.8**
Corporate Centre	47,375	49,552	-2,177	-4.4
Intesa Sanpaolo Group	**426,662**	**415,082**	**11,580**	**2.8**

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

Business areas
Direct deposits from banking business



In the analysis of deposits by business area, the Banca dei Territori Division, which accounts for over half of the aggregate of the Group's business areas, increased by 3.3 billion euro year-to-date (+1.7%), due to the growth in amounts due to customers, principally owing to the effect of the greater liquidity in deposits by retail customers. The Corporate and Investment Banking Division was up by 1.5 billion euro (+1.4%) due to the increase in securities issued, specifically those of the Irish and Luxembourg subsidiaries and financial institutions, and the growth in certificates of Banca IMI, only partly offset by the decrease in repurchase agreements. The progress achieved by the International Subsidiary Banks Division (+3.4 billion euro, or +8.6%) is mainly attributable to the performance of the subsidiaries operating in Slovakia, Egypt, Serbia and Croatia. The Private Banking Division reported growth of 5.6 billion euro (+17.4%), primarily concentrated in customer current account deposits. The decrease in the Corporate Centre's funding was due to securities issued, essentially on the wholesale market.

Indirect customer deposits

(millions of euro)

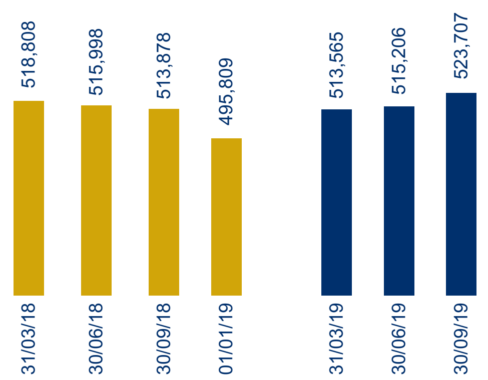
	30.09.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds [(a)]	120,100	22.9	115,288	23.3	4,812	4.2
Open-ended pension funds and individual pension plans	9,955	1.9	8,871	1.8	1,084	12.2
Portfolio management [(b)]	56,796	10.8	52,652	10.6	4,144	7.9
Technical reserves and financial liabilities of the insurance business	149,064	28.5	140,332	28.3	8,732	6.2
Relations with institutional customers	15,748	3.0	13,450	2.7	2,298	17.1
Assets under management	**351,663**	**67.1**	**330,593**	**66.7**	**21,070**	**6.4**
Assets under administration and in custody	**172,044**	**32.9**	**165,216**	**33.3**	**6,828**	**4.1**
Indirect customer deposits	**523,707**	**100.0**	**495,809**	**100.0**	**27,898**	**5.6**

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.

Quarterly development
Indirect customer deposits
(millions of euro)



As at 30 September 2019, the Group's indirect customer deposits amounted to 524 billion euro, up by 5.6% compared with the beginning of the year, due to increases across all components, buoyed by favourable market conditions.

Assets under management, which account for over two-thirds of the total aggregate, increased by 21 billion euro (+6.4%), mainly driven by technical reserves and insurance financial liabilities (+6.2%), mutual funds (+4.2%) and portfolio management schemes (+7.9%), which benefited above all from the revaluation of assets. In the period, the new life business of the life insurance companies of the Intesa Sanpaolo Group, including pension products, amounted to 13 billion euro.

Assets under administration and in custody increased by 6.8 billion euro (+4.1%), mainly due to third-party securities and products.

Net interbank position

The net interbank position as at 30 September 2019 showed a net debt of 47.4 billion euro, up compared to 1 January of the same year (net debt of 39.1 billion euro). Amounts due to banks, equal to 119 billion euro, include a 60.6-billion-euro exposure to the ECB, following participation in the TLTRO II refinancing operations.

INSURANCE BUSINESS

Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39

(millions of euro)

Type of financial instruments	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39			Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	TOTAL Financial assets pertaining to insurance companies measured pursuant to IAS 39	Financial liabilities pertaining to insurance companies measured pursuant to IAS 39 (*)
	Financial assets held for trading and hedging derivatives	Financial assets designated at fair value	Financial assets available for sale			
Debt securities issued by Governments						
30.09.2019	120	3,740	58,826	-	**62,686**	X
01.01.2019	103	3,647	49,364	-	**53,114**	X
Changes amount	17	93	9,462	-	**9,572**	
Changes %	16.5	2.6	19.2	-	**18.0**	
Other debt securities						
30.09.2019	26	688	12,346	-	**13,060**	X
01.01.2019	26	666	12,940	-	**13,632**	X
Changes amount	-	22	-594		**-572**	
Changes %	-	3.3	-4.6		**-4.2**	
Equities						
30.09.2019	-	2,181	1,314	-	**3,495**	X
01.01.2019	-	1,678	979	-	**2,657**	X
Changes amount	-	503	335	-	**838**	
Changes %	-	30.0	34.2	-	**31.5**	
Quotas of UCI						
30.09.2019	162	74,710	11,858	-	**86,730**	X
01.01.2019	108	67,748	11,639	-	**79,495**	X
Changes amount	54	6,962	219	-	**7,235**	
Changes %	50.0	10.3	1.9	-	**9.1**	
Due from banks and loans to customers						
30.09.2019	-	750	-	570	**1,320**	X
01.01.2019	-	575	-	952	**1,527**	X
Changes amount	-	175	-	-382	**-207**	
Changes %	-	30.4	-	-40.1	**-13.6**	
Due to banks						
30.09.2019	X	X	X	X	X	-3 (**)
01.01.2019	X	X	X	X	X	-5 (**)
Changes amount						-2
Changes %						-40.0
Financial derivatives						
30.09.2019	313	-	-	-	**313**	-102 (***)
01.01.2019	72	-	-	-	**72**	-44 (***)
Changes amount	241	-	-	-	**241**	58
Changes %		-	-	-		
Credit derivatives						
30.09.2019	-	-	-	-	**-**	- (***)
01.01.2019	1	-	-	-	**1**	- (***)
Changes amount	-1	-	-	-	**-1**	-
Changes %		-	-	-		-
TOTAL 30.09.2019	**621**	**82,069**	**84,344**	**570**	**167,604**	**-105**
TOTAL 01.01.2019	**310**	**74,314**	**74,922**	**952**	**150,498**	**-49**
Changes amount	**311**	**7,755**	**9,422**	**-382**	**17,106**	**56**
Changes %		**10.4**	**12.6**	**-40.1**	**11.4**	

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

(*) This amount does not include "Financial liabilities of the insurance business designated at fair value" included in the table on direct deposits from insurance business.

(**) Value included in the Balance Sheet under “Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39".

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

Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39, summarised in the table above, amounted to 168 billion euro and 105 million euro, respectively. The increase in assets (+11.4%) – due to both the designated at fair value and available for sale portfolios – benefited from the appreciation of assets in portfolio driven by market performance.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.09.2019	% breakdown	01.01.2019	% breakdown	Changes amount	Changes %
Financial liabilities of the insurance business designated at fair value IAS39 (*)	**74,303**	**45.2**	**67,756**	**45.4**	**6,547**	**9.7**
Index-linked products	-	-	-	-	-	-
Unit-linked products	*74,303*	*45.2*	*67,756*	*45.4*	*6,547*	*9.7*
Technical reserves	**89,237**	**54.3**	**80,797**	**54.1**	**8,440**	**10.4**
Life business	88,325	53.7	80,009	53.6	8,316	10.4
Mathematical reserves	*73,793*	*44.9*	*71,569*	*47.9*	*2,224*	*3.1*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*6,746*	*4.1*	*6,093*	*4.1*	*653*	*10.7*
Other reserves	*7,786*	*4.7*	*2,347*	*1.6*	*5,439*	
Non-life business	912	0.6	788	0.5	124	15.7
Other insurance deposits (***)	**876**	**0.5**	**805**	**0.5**	**71**	**8.8**
Direct deposits from insurance business and technical reserves	**164,416**	**100.0**	**149,358**	**100.0**	**15,058**	**10.1**

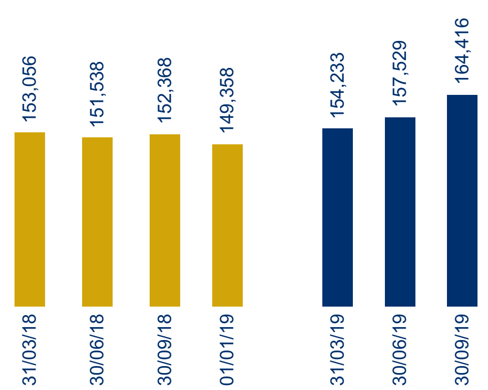
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

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



Direct deposits from insurance business came to 164 billion euro as at 30 September 2019, up by 10.1% compared with the beginning of the year. Financial liabilities measured at fair value, consisting of unit-linked products, increased by 6.5 billion euro (+9.7%). Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded an increase of 8.4 billion euro (+10.4%), mainly attributable to the life business, which accounts for almost all reserves and was positively affected by the appreciation of customer assets in portfolio.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At 30 September 2019, assets held for sale amounted to 2,554 million euro, or 2,298 million euro net of the associated liabilities.

Non-current assets held for sale include the portfolio of bad loans, unlikely-to-pay loans and performing loans soon to be sold (net exposure of 1,851 million euro, almost entirely referring to the Prelios transaction) and the so-called “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 the option to transfer them to the Banks in compulsory administrative liquidation (net exposure of 338 million euro).

SHAREHOLDERS’ EQUITY

As at 30 September 2019, the Group’s shareholders’ equity, including the net income for the period, came to 55,229 million euro compared to the 54,024 million euro at the beginning of the year. The increase in shareholders’ equity was essentially due to the net income for the period of 3.3 billion euro and the increase in valuation reserves of 1.4 billion euro, net of the distribution of the 2018 net income of 3.4 billion euro.

Valuation reserves

(millions of euro)

	Reserve 01.01.2019	Change of the period	Reserve 30.09.2019
Financial assets designated at fair value through other comprehensive income (debt instruments)	-489	700	211
Financial assets designated at fair value through other comprehensive income (equities)	189	-23	166
Property and equipment	1,256	241	1,497
Cash flow hedges	-816	-215	-1,031
Foreign exchange differences	-1,011	76	-935
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	-375	-63	-438
Portion of the valuation reserves connected with investments carried at equity	25	3	28
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-913**	**719**	**-194**
Valuation reserves pertaining to insurance companies	**9**	**718**	**727**

Valuation reserves increased by 719 million euro in the banking component and by 718 million euro in the insurance component, essentially due to the performance of the spread on Italian government bonds, which entailed an increase in the value of the assets in portfolio.

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	30.09.2019		31.12.2018
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	39,208	41,747	37,241
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,721	4,721	4,856
TIER 1 CAPITAL	**43,929**	**46,468**	**42,097**
Tier 2 capital net of regulatory adjustments	7,557	6,699	6,781
TOTAL OWN FUNDS	**51,486**	**53,167**	**48,878**
Risk-weighted assets			
Credit and counterparty risks	261,079	259,188	237,237
Market and settlement risk	20,558	20,558	21,147
Operational risks	18,345	18,345	17,671
Other specific risks (a)	302	302	391
RISK-WEIGHTED ASSETS	**300,284**	**298,393**	**276,446**
% Capital ratios			
Common Equity Tier 1 capital ratio	13.1%	14.0%	13.5%
Tier 1 capital ratio	14.6%	15.6%	15.2%
Total capital ratio	17.1%	17.8%	17.7%

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

Own Funds, risk-weighted assets and the capital ratios as at 30 September 2019 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, which provided for the gradual introduction of the Basel 3 framework, are now in full effect, following the conclusion in 2018 of the specific transitional period during which some elements to be fully included in or deducted from Common Equity when the framework is “fully loaded” only had a partial percent impact on Common Equity Tier 1 capital. Specific transitional provisions (i.e. grandfathering) 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).
The Intesa Sanpaolo Group chose to take the "static approach" to adopting IFRS 9 envisaged in Regulation (EU) 2017/2395. 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, 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 September 2019, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 53,167 million euro, against risk-weighted assets of 298,393 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 51,487 million euro, compared to risk-weighted assets of 300,284 million euro.
Own funds calculated considering the full impact of IFRS 9 (i.e., on a “fully-loaded” basis) take account of the provisions of the 2019 Budget Act calling for the adjustments upon first-time adoption of the Standard to be applied in instalments for tax purposes, with the recognition of the resulting DTAs. These DTAs have been considered at 15% of their book value for the purposes of calculating transitional own funds, in accordance with Article 473bis of the CRR with regard to the application of the static approach, whereas they have been fully included among deductible elements in fully-loaded own funds. The impact of such DTAs on fully-loaded own funds is nonetheless temporary since they will be phased out over a period of 10 years, starting in 2018.
Common Equity Tier 1 capital includes the first nine months of 2019, less the related dividend, calculated on the basis of the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).
Common Equity Tier 1 Capital and risk-weighted assets as at 30 September 2019 take account of the impact of the application of the “Danish Compromise” (Art. 49.1 of Regulation (EU) No 575/2013), as per the specific authorisation received from the ECB, according to which insurance investments are treated as risk-weighted assets instead of being deducted from capital.

The increase in risk-weighted assets during the period relating to credit risk includes, in addition to the effects of the aforementioned "Danish Compromise", the impact of the first-time adoption of IFRS 16, the standard on leases, which entailed an increase in on-balance sheet assets due to the recognition of the right of use to leased assets, together with the results of the TRIM (Targeted Review of Internal Models) conducted by the ECB.
On the basis of the foregoing, solvency ratios as at 30 September 2019, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.0%, a Tier 1 ratio of 15.6% and a total capital ratio of 17.8%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 September 2019 were as follows: a Common Equity ratio of 13.1%, a Tier 1 ratio of 14.6% and a Total capital ratio of 17.1%.
Finally, on 8 February 2019, Intesa Sanpaolo received notification of the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 March 2019, following the results of the Supervisory Review and Evaluation Process (SREP). The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.96% under the transitional arrangements for 2019 and 9.35% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.09.2019	31.12.2018
Group Shareholders' equity	55,229	54,024
Minority interests	322	407
Shareholders' equity as per the Balance Sheet	**55,551**	**54,431**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-4,102	-4,121
- Minority interests eligible for inclusion in AT1	-4	-4
- Minority interests eligible for inclusion in T2	-4	-4
- Ineligible minority interests on full phase-in	-282	-372
- Ineligible net income for the period (a)	-2,688	-3,534
- Treasury shares included under regulatory adjustments	232	204
- Other ineligible components on full phase-in	-155	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**48,548**	**46,466**
Regulatory adjustments (including transitional adjustments) (b)	**-6,801**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**41,747**	**37,241**

(a) Common Equity Tier 1 capital as at 30 September 2019 includes the net income for the first nine months of 2019, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 September 2019 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (85% in 2019) set to decrease progressively until 2022.
The change compared to 31 December 2018 is substantially attributable to the effects of the application from the third quarter of 2019 of the so-called Danish Compromise, which entails risk-weighting the insurance investment instead of deducting it.

Breakdown of consolidated results by business area

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

The Intesa Sanpaolo Group

(*) Includes the Group's Treasury and the NPE Head Office Department (former Capital Light Bank)

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 nine months of 2019.
The following itemised analysis of the business areas illustrates the 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								
30.09.2019	6,664	3,218	1,485	1,444	558	837	-624	13,582
30.09.2018	7,000	2,936	1,485	1,410	545	885	-570	13,691
% change	-4.8	9.6	-	2.4	2.4	-5.4	9.5	-0.8
Operating costs								
30.09.2019	-3,735	-764	-721	-448	-108	-145	-837	-6,758
30.09.2018	-3,989	-759	-722	-426	-113	-131	-790	-6,930
% change	-6.4	0.7	-0.1	5.2	-4.4	10.7	5.9	-2.5
Operating margin								
30.09.2019	2,929	2,454	764	996	450	692	-1,461	6,824
30.09.2018	3,011	2,177	763	984	432	754	-1,360	6,761
% change	-2.7	12.7	0.1	1.2	4.2	-8.2	7.4	0.9
Net income (loss)								
30.09.2019	1,310	1,532	564	673	344	495	-1,608	3,310
30.09.2018	1,155	1,513	541	670	342	540	-1,749	3,012
% change	13.4	1.3	4.3	0.4	0.6	-8.3	-8.1	9.9
Loans to customers								
30.09.2019	203,311	117,451	33,616	9,464	245	-	31,106	395,193
01.01.2019	211,491	110,642	31,538	9,530	228	-	30,121	393,550
% change	-3.9	6.2	6.6	-0.7	7.5	-	3.3	0.4
Direct deposits from banking business								
30.09.2019	194,916	103,906	42,765	37,692	8	-	47,375	426,662
01.01.2019	191,588	102,449	39,384	32,103	6	-	49,552	415,082
% change	1.7	1.4	8.6	17.4	33.3	-	-4.4	2.8
Risk-weighted assets								
30.09.2019	87,689	90,897	33,586	8,930	1,177	-	76,114	298,393
31.12.2018	91,542	86,797	31,284	7,670	963	-	58,190	276,446
% change	-4.2	4.7	7.4	16.4	22.2	-	30.8	7.9
Absorbed capital								
30.09.2019	8,111	8,412	3,726	879	124	4,226	7,041	32,519
31.12.2018	8,468	8,032	3,486	755	103	3,874	6,691	31,409
% change	-4.2	4.7	6.9	16.4	20.4	9.1	5.2	3.5

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

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	30.09.2019	30.09.2018	changes amount	changes %
Net interest income	3,292	3,504	-212	-6.1
Net fee and commission income	3,302	3,404	-102	-3.0
Income from insurance business	2	-	2	-
Profits (Losses) on financial assets and liabilities designated at fair value	53	56	-3	-5.4
Other operating income (expenses)	15	36	-21	-58.3
Operating income	**6,664**	**7,000**	**-336**	**-4.8**
Personnel expenses	-2,363	-2,491	-128	-5.1
Other administrative expenses	-1,362	-1,491	-129	-8.7
Adjustments to property, equipment and intangible assets	-10	-7	3	42.9
Operating costs	**-3,735**	**-3,989**	**-254**	**-6.4**
Operating margin	**2,929**	**3,011**	**-82**	**-2.7**
Net adjustments to loans	-817	-1,114	-297	-26.7
Other net provisions and net impairment losses on other assets	-34	-57	-23	-40.4
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**2,078**	**1,840**	**238**	**12.9**
Taxes on income	-752	-675	77	11.4
Charges (net of tax) for integration and exit incentives	-15	-8	7	87.5
Effect of purchase price allocation (net of tax)	-1	-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)	**1,310**	**1,155**	**155**	**13.4**

(millions of euro)

	30.09.2019	01.01.2019	changes amount	changes %
Loans to customers	203,311	211,491	-8,180	-3.9
Direct deposits from banking business	194,916	191,588	3,328	1.7
	30.09.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	87,689	91,542	-3,853	-4.2
Absorbed capital	8,111	8,468	-357	-4.2

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

Banca dei Territori's operating income was 6,664 million euro in the first nine months of 2019, equal to around half of the Group's consolidated operating income, down 4.8% on the same period of the previous year. In detail, net interest income was down by 6.1%, due to the lower contribution from short-term loan volumes and from the hedging of core deposits. Net fee and commission income was down by 3%, attributable to the assets under management and bancassurance segments, which recovered in the third quarter. This trend was only partially offset by the higher placements of third-party bonds and certificates.

Among the other revenue components, which however provide a marginal contribution to the Division's income, there was a decrease both in profits (losses) on financial assets and liabilities designated at fair value and in other operating income. Operating costs, equal to 3,735 million euro, were down significantly (-6.4%) thanks to the savings in administrative expenses, due to lower service costs, mainly in the real estate and operations sectors, also in relation to the rationalisation of the branch network, and in personnel expenses, attributable to the reduction in the average workforce. As a result of the changes described above, the operating margin amounted to 2,929 million euro, down 2.7% on the same period of the previous year. In contrast, gross income, amounting to 2,078 million euro, was up 12.9% due to lower adjustments to loans. After allocation to the Division of taxes of 752 million euro, charges for integration of 15 million euro and the effects of purchase price allocation for 1 million euro, net income came to 1,310 million euro, up 13.4%.
In terms of quarterly development, the operating margin grew compared to the second quarter of 2019 due to the increase in fee and commission income and the stability of costs. Net income also improved, benefiting from lower adjustments to loans.

The balance sheet figures at the end of September 2019 showed a decline in intermediated volumes of loans and deposits from the beginning of the year (-1.2%). More specifically, loans to customers, amounting to 203,311 million euro, decreased by 8.2 billion euro (-3.9%) due to the decrease in the both short- and medium-/long-term components, especially to businesses. Direct deposits from banking business, amounting to 194,916 million euro, were up (+3.3 billion euro, or +1.7%) in the amounts due to customers component, mainly due to the higher liquidity on deposits held by private individuals.

Corporate and Investment Banking

(millions of euro)

Income statement	30.09.2019	30.09.2018	changes amount	changes %
Net interest income	1,322	1,248	74	5.9
Net fee and commission income	698	739	-41	-5.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,196	938	258	27.5
Other operating income (expenses)	2	11	-9	-81.8
Operating income	**3,218**	**2,936**	**282**	**9.6**
Personnel expenses	-306	-298	8	2.7
Other administrative expenses	-435	-438	-3	-0.7
Adjustments to property, equipment and intangible assets	-23	-23	-	-
Operating costs	**-764**	**-759**	**5**	**0.7**
Operating margin	**2,454**	**2,177**	**277**	**12.7**
Net adjustments to loans	-175	-43	132	
Other net provisions and net impairment losses on other assets	-13	-7	6	85.7
Other income (expenses)	3	2	1	50.0
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**2,269**	**2,129**	**140**	**6.6**
Taxes on income	-733	-612	121	19.8
Charges (net of tax) for integration and exit incentives	-4	-4	-	-
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)	**1,532**	**1,513**	**19**	**1.3**

(millions of euro)

	30.09.2019	01.01.2019	changes amount	changes %
Loans to customers	117,451	110,642	6,809	6.2
Direct deposits from banking business (a)	103,906	102,449	1,457	1.4
	30.09.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	90,897	86,797	4,100	4.7
Absorbed capital	8,412	8,032	380	4.7

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

(a) The item includes certificates.

In the first nine months of 2019, the **Corporate and Investment Banking Division** recorded operating income of 3,218 million euro (representing approximately one-fourth of the Group's consolidated total), up 9.6% compared to the same period of last year.

In detail, net interest income of 1,322 million euro was up (+5.9%). The increase was attributable to the Global Market segment, driven by the strong performance of the securities portfolio. In contrast, net fee and commission income, amounting to 698 million euro, fell by 5.5%, mainly due to the performance of the commercial banking segment. Profits on financial assets and liabilities designated at fair value, amounting to 1,196 million euro, was the revenue caption with the highest increase compared to the first nine months of 2018: +258 million euro, or +27.5%, despite the absence of the positive effect of 264 million euro in the previous year resulting from the fair value measurement and subsequent sale of the investment in NTV. Operating costs amounted to 764 million euro, up slightly on the same period of 2018 (+0.7%) due to higher personnel expenses. As a result of the above revenue and cost trends, the operating margin rose by 12.7% to 2,454 million euro. Gross income, amounting to 2,269 million euro, was up 6.6%, despite higher net adjustments to loans. Lastly, net income came to 1,532 million euro (+1.3%).

In the third quarter of 2019, the Corporate and Investment Banking Division recorded a decline in operating margin compared to the second quarter, due to the decrease in revenues and the increase in operating costs. The same trend recurred at the level of gross income and net income.

The Division's intermediated volumes increased compared to the beginning of the year (+3.9%). In detail, loans to customers, amounting to 117,451 million euro, grew by 6.8 billion euro (+6.2%), mainly due to the global markets and structured finance segments, which more than offset the decrease in business with global corporate and international customers. Direct deposits from banking business, amounting to 103,906 million euro, were up by 1.5 billion euro (+1.4%), due to the increase in securities issued, specifically those of the Irish and Luxembourg subsidiaries and financial institutions, and the growth in certificates of Banca IMI, only partly offset by the decrease in repurchase agreements.

International Subsidiary Banks

(millions of euro)

Income statement	30.09.2019	30.09.2018	changes amount	changes %
Net interest income	1,030	977	53	5.4
Net fee and commission income	397	390	7	1.8
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	85	141	-56	-39.7
Other operating income (expenses)	-27	-23	4	17.4
Operating income	**1,485**	**1,485**	**-**	**-**
Personnel expenses	-397	-394	3	0.8
Other administrative expenses	-245	-244	1	0.4
Adjustments to property, equipment and intangible assets	-79	-84	-5	-6.0
Operating costs	**-721**	**-722**	**-1**	**-0.1**
Operating margin	**764**	**763**	**1**	**0.1**
Net adjustments to loans	-36	-61	-25	-41.0
Other net provisions and net impairment losses on other assets	-	-12	-12	
Other income (expenses)	5	5	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**733**	**695**	**38**	**5.5**
Taxes on income	-142	-142	-	-
Charges (net of tax) for integration and exit incentives	-27	-15	12	80.0
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	-	3	-3	
Net income (loss)	**564**	**541**	**23**	**4.3**

(millions of euro)

	30.09.2019	01.01.2019	changes amount	changes %
Loans to customers	33,616	31,538	2,078	6.6
Direct deposits from banking business	42,765	39,384	3,381	8.6
	30.09.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	33,586	31,284	2,302	7.4
Absorbed capital	3,726	3,486	240	6.9

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

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

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 NPE Department, i.e. the former 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), the latter two merged by incorporation during 2018, and the Moldovan bank Eximbank.

In the first nine months of 2019, the Division's operating income came to 1,485 million euro, stable on the same period of the previous year (-1.7% at like-for-like exchange rates). A detailed analysis shows that net interest income came to 1,030 million euro (+5.4%), mainly due to the performance reported by Bank of Alexandria (+42 million euro) and CIB Bank (+12 million euro). Net fee and commission income, equal to 397 million euro, was up (+1.8%), mainly due to Banca Intesa Beograd (+5 million euro) and PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (+2 million euro). Among the other revenue components, profits (losses) on financial assets and liabilities designated at fair value, amounting to 85 million euro, decreased significantly (-39.7%) compared to the first nine months of the previous year when

they benefited from the gain realised by VUB Banka on the sale of securities, while other operating costs, which were marginal in amount, increased by 4 million euro.
Operating costs, amounting to 721 million euro, remained at levels similar to those for the same period of 2018 (-0.1%; -1.5% at constant exchange rates): the slight increase in personnel and administrative expenses was offset by lower amortisation and depreciation, mainly in the real estate sector.
As a result of the revenue and cost trends, the operating margin remained essentially stable (+0.1%) at 764 million euro. Gross income, equal to 733 million euro, grew by 5.5% due to lower adjustments to loans and lower provisions and net adjustments to other assets. The Division closed the first nine months of 2019 with net income of 564 million euro (+4.3%).
In the third quarter of 2019, the operating margin recorded a decline compared with the second quarter due to the decrease in revenues and the increase in operating costs. Gross income and net income were positively affected by the reduction in adjustments to loans and provisions.

The Division’s intermediated volumes grew compared to the beginning of the year (+7.7%) owing to positive performance of loans to customers (+6.6%) and direct deposits from banking business (+8.6%), in both amounts due to customers and securities issued.

Private Banking

(millions of euro)

Income statement	30.09.2019	30.09.2018	changes	
			amount	%
Net interest income	132	116	16	13.8
Net fee and commission income	1,276	1,270	6	0.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	33	19	14	73.7
Other operating income (expenses)	3	5	-2	-40.0
Operating income	**1,444**	**1,410**	**34**	**2.4**
Personnel expenses	-264	-251	13	5.2
Other administrative expenses	-142	-141	1	0.7
Adjustments to property, equipment and intangible assets	-42	-34	8	23.5
Operating costs	**-448**	**-426**	**22**	**5.2**
Operating margin	**996**	**984**	**12**	**1.2**
Net adjustments to loans	-1	-2	-1	-50.0
Other net provisions and net impairment losses on other assets	-38	-12	26	
Other income (expenses)	9	11	-2	-18.2
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**966**	**981**	**-15**	**-1.5**
Taxes on income	-278	-294	-16	-5.4
Charges (net of tax) for integration and exit incentives	-14	-17	-3	-17.6
Effect of purchase price allocation (net of tax)	-1	-	1	-
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)	**673**	**670**	**3**	**0.4**

(millions of euro)

	30.09.2019	01.01.2019	changes	
			amount	%
Assets under management [1]	121,155	111,955	9,200	8.2

	30.09.2019	31.12.2018	changes	
			amount	%
Risk-weighted assets	8,930	7,670	1,260	16.4
Absorbed capital	879	755	124	16.4

(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.

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

In the first nine months of 2019, the Division generated gross income of 966 million euro, down (-15 million euro, or -1.5%) compared with the corresponding period in 2018, due to higher operating costs (+22 million euro) and higher provisions (+26 million euro), which outweighed the increase in operating income (+34 million euro).
In detail, the performance of operating income was attributable to an increase in net interest income (+16 million euro) and profits (losses) on financial assets and liabilities designated at fair value (+14 million euro) and, to a lesser extent, fee and commission income (+6 million euro). Operating costs increased (+5.2%), due to the rise in personnel expenses, related to the different impact of the variable components of remuneration, and amortisation and depreciation, mainly in the real estate area. With regard to the provisions, the performance was mainly related to the discounting of the allowances for risks for contractual indemnities, which resulted in a higher charge to the income statement, due to the decline in interest rates.
Lastly, net income amounted to 673 million euro (+3 million euro, or +0.4%).

The values of assets under management and 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 September 2019, assets under management and administration, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 196.6 billion euro (+17 billion euro compared to the beginning of the year). This trend was mainly due to the market performance, which had a favourable impact on assets and, to a lesser extent, to positive net inflows. The assets under management component amounted to 121.2 billion euro (+9.2 billion euro).

On 1 August 2019, Intesa Sanpaolo Private Bank (Suisse) Morval opened a new branch in London, acquiring all the relationships and assets of the London branch of Intesa Sanpaolo Private Banking, which discontinued operation with effect from that same date.

Asset Management

(millions of euro)

Income statement	30.09.2019	30.09.2018	Changes amount	%
Net interest income	-	-	-	-
Net fee and commission income	527	532	-5	-0.9
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	5	-8	13	
Other operating income (expenses)	26	21	5	23.8
Operating income	**558**	**545**	**13**	**2.4**
Personnel expenses	-55	-54	1	1.9
Other administrative expenses	-49	-55	-6	-10.9
Adjustments to property, equipment and intangible assets	-4	-4	-	-
Operating costs	**-108**	**-113**	**-5**	**-4.4**
Operating margin	**450**	**432**	**18**	**4.2**
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)	**450**	**432**	**18**	**4.2**
Taxes on income	-106	-83	23	27.7
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	-	-7	-7	
Net income (loss)	**344**	**342**	**2**	**0.6**

(millions of euro)

	30.09.2019	01.01.2019	changes amount	%
Assets under management	260,432	242,609	17,823	7.3

	30.09.2019	31.12.2018	changes amount	%
Risk-weighted assets	1,177	963	214	22.2
Absorbed capital	124	103	21	20.4

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.

Operating income for the first nine months of 2019, amounting to 558 million euro, increased by 2.4% compared to the same period of the previous year, mainly to be viewed in relation to higher income on the fair value measurement of the financial portfolio and other net operating income attributable to the contributions of subsidiaries consolidated at equity. This income, while marginal in extent, more than offset the modest decline in fee and commission income (-0.9%), particularly in management and placement fees, which recovered in the third quarter. Operating costs reported a decrease (-4.4%), attributable to administrative expenses, thanks to the efficiency gains achieved on fund administration costs. As a result of the above revenue and cost trends, the operating margin came to 450 million euro, up (+4.2%) on the same period of the previous year. The Division closed the first nine months of 2019 with net income of 344 million euro (+0.6%).

Overall, assets managed by the Asset Management Division amounted to 260.4 billion euro as at 30 September 2019, up 7.3% on the beginning of the year, as a result of a positive market performance that more than offset the net outflows (-0.6 billion euro). The net outflows were due to the outflows from mutual funds (-2.1 billion euro) and retail and private portfolio management schemes (-1.4 billion euro), which exceeded the positive contribution of institutional mandates (+3 billion euro), mostly concentrated in insurance contracts. However, there was a significant recovery in the third quarter, when net inflows amounted to 2.1 billion euro, compared to net outflows of 2.7 billion euro in the first two quarters of the year.

As at 30 September 2019, Eurizon Capital's Italian market share of assets under management was 14.2% (gross of duplications), down since the beginning of the year. Excluding the closed-end funds segment, in which the company operates only through the equity fund "Eurizon Italian Fund - Eltif", marketed in the first quarter 2019, the share of assets under management at the end of September rose to 14.6%. The reduction in the market share in the first nine months of the current year was largely due to the acquisition by BancoPosta Fondi SGR of two new mandates for a total of 59 billion euro from entities belonging to the Poste Italiane group (Poste Italiane S.p.A. - Patrimonio BancoPosta and Poste Vita S.p.A.). This extraordinary transaction involving Poste Italiane resulted in a change to the Assogestioni reporting scope, giving rise to a reduction in the share attributable to the other operators. In Eurizon's case, the negative impact on the market share was approximately 40 basis points.

Insurance

(millions of euro)

Income statement	30.09.2019	30.09.2018	Changes	
			amount	%
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	845	893	-48	-5.4
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-8	-8	-	-
Operating income	**837**	**885**	**-48**	**-5.4**
Personnel expenses	-64	-58	6	10.3
Other administrative expenses	-73	-67	6	9.0
Adjustments to property, equipment and intangible assets	-8	-6	2	33.3
Operating costs	**-145**	**-131**	**14**	**10.7**
Operating margin	**692**	**754**	**-62**	**-8.2**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-2	-3	-1	-33.3
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**690**	**751**	**-61**	**-8.1**
Taxes on income	-182	-197	-15	-7.6
Charges (net of tax) for integration and exit incentives	-1	-2	-1	-50.0
Effect of purchase price allocation (net of tax)	-12	-12	-	-
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)	**495**	**540**	**-45**	**-8.3**

(millions of euro)

	30.09.2019	01.01.2019	changes	
			amount	%
Direct deposits from insurance business (1)	164,434	149,358	15,076	10.1
	30.09.2019	**31.12.2018**	**changes**	
			amount	**%**
Risk-weighted assets	-	-	-	-
Absorbed capital	4,226	3,874	352	9.1

(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.

In the first nine months of 2019, the Division reported income from insurance business of 845 million euro, down 48 million euro (-5.4%) compared to the same period of the previous year. The decrease in the result was mainly attributable to financial components realised on the life portfolio in the first few months of last year, as a defensive strategy in relation to expectations of interest rate trends.
Gross income amounted to 690 million euro, down by 61 million euro (-8.1%), mainly due, in addition to the aforementioned fall in operating income, to the increase in operating costs (+10.7%), mostly attributable to initiatives related to the development of the non-life business, as envisaged in the strategic plan.
The cost/income ratio, at 17.3%, remained at excellent levels, with an increase on the figure reported for the first nine months of 2018.
Lastly, net income, after the attribution of taxes of 182 million euro, charges for integration of 1 million euro and the effect of purchase price allocation for 12 million euro, amounted to 495 million euro (-8.3%).

Direct deposits from insurance business, amounting to 164,434 million euro, were up compared to the beginning of the year (+10.1%, or +15.1 billion euro), due to the technical reserves and the financial liabilities measured at fair value.

The Division's collected premiums for life policies and pension products amounted to 13.1 billion euro, down 15% on the same period of last year, entirely due to the unit-linked segment, whose placement was affected by the uncertainty in the financial markets. Collected premiums for traditional and pension products increased by 4% and 6% respectively.

Collected premiums for the protection business totalled 469 million euro, with an increase of more than 29% on the first nine months of 2018. There was significant growth in non-motor products (excluding CPI), which are the focus of the 2018-2021 Business Plan, up by 107%. Specifically, Home and Health products increased by 112%

Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for the NPE Department (former Capital Light Bank), Treasury and Strategic ALM.

The Corporate Centre Departments generated a gross loss of 1,839 million euro in the first nine months of 2019, compared to -1,875 million euro in the corresponding period of the previous year. This performance was mainly attributable to the profits on financial assets and liabilities designated at fair value and lower adjustments to loans, which offset the deterioration in net interest income attributable, for the most part, to the absence of the time value and contractual interest following the deleveraging of the bad loans carried out in 2018. Operating costs were up on the first nine months of 2018, due to the services associated with the outsourcing of certain credit recovery activities and higher labour costs connected with the strengthening of some governance structures. The period ended with a net loss of 1,608 million euro, lower than the -1,749 million euro recorded in the same period of the previous year. The income statement of the Corporate Centre includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking industry and consequently outside the company management. These charges, essentially consisting of contributions to the resolution funds, amounted to 338 million euro, after tax, up compared with the 309 million euro for the first nine months of 2018.

Treasury services

The Group Treasury and Finance includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks (ALM) and settlement risks.

In the third quarter of 2019, Intesa Sanpaolo confirmed its systemic role as a critical participant in the ECB settlement systems, maintaining stable market shares on the Target2 (cash) platform, while also strengthening its presence on the Target2 Securities platform. The Bank's contribution to the European Central Bank's working group continued for the construction of the new platform for the integrated settlement of cash, securities and collateral ("Target Services"), which will be launched in November 2021. In particular, following the conclusion of the internal projects for clearing of Banca Fideuram and Banca 5 through Target2 (leading up to T2/T2S Consolidation), Intesa Sanpaolo complied with the ECB milestone (30 September 2019) calling for the completion of the internal project impact assessment, aimed at launching the development phase for the new Target2.

In the third quarter of 2019, the persistent economic decline, combined with falling inflation and rising uncertainty fuelled by geopolitical factors, led the ECB to announce a new package of expansionary measures. At the September meeting it was decided to cut the deposit facility rate by 10 basis points, recommence the Asset Purchase Programmes, introduce a tiering system in November to reduce the cost of the liquidity deposited with the Central Bank and, finally, modify the conditions of TLTRO-III so as to make them more advantageous. Money-market curves were impacted by the macroeconomic scenario. Specifically, the 12-month part of the curve reached its absolute low (-0.40%) to then recover marginally to around -0.33%. In the United States, the Federal Reserve also decided to adopt an expansionary monetary policy by making two cuts to the reference rates at its July and September meetings. The outstanding amount of Intesa Sanpaolo's short-term euro and foreign currency securities funding increased marginally on the previous quarter, with transactions concentrated in the 6-12-month segment and several longer-term securities within the EMTN programme.

In terms of medium/long-term funding operations, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 7.06 billion euro. Among the securities placed, there was a prevalence (87%) of the component consisting of structured financial instruments, mainly comprised of index-linked structures. A breakdown by average maturity shows that 38% is comprised of instruments with maturities up to 4 years, 60% is represented by 5-, 6- and 7-year securities, and the remaining 2% by 8- and 10-year securities.
On the international markets, institutional unsecured funding transactions were completed for a total of around 5.9 billion euro, of which 5.6 billion euro through senior bond issues (public transactions and private placements) placed on the various international markets and 263 million euro through the issue of Banca IMI bonds and certificates placed with institutional investors. In particular, the following public transactions were undertaken in the third quarter: in July a preferred senior fixed-rate security was issued for 2.25 billion euro, intended for European institutional investors (in two tranches, 1 billion euro with a 10-year duration and 1.25 billion euro with a 5-year duration); in September a preferred senior fixed-rate security was issued for 2 billion USD (corresponding to around 1.8 billion euro), aimed at the US market (in three tranches, 750 million USD with a 5-year duration, 750 million USD with a 10-year duration and 500 million USD with a 30-year duration), and 250 million CHF (corresponding to around 228.7 million euro) of preferred senior fixed-rate 5-year bonds issued by Intesa Sanpaolo Bank Ireland and guaranteed by the Parent Company, intended for the Swiss market. This was the Group's first issue listed on Zurich's SIX Exchange. The following private placements were also undertaken: 900 million euro of preferred senior 2-year bonds issued by Intesa Sanpaolo Bank Luxembourg and 60 million euro of preferred senior 10-year bonds.

For the management of collateral, Intesa Sanpaolo also 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. At the end of September 2019, the outstanding amount, gross of hair-cuts applicable to loans lodged as pledge by the Group, amounted to around 12.5 billion euro.

In the government bond portfolio (intended for management of the liquidity buffer), over the quarter strategies focused on containing risk through diversification. This supported net interest income while maintaining the position on the Italian government bond market, despite the phase of weakness triggered by the government crisis in August. With regard to the repo market, in the third quarter of 2019 volumes of Italian government bonds traded increased on the previous period and interest rates came to levels slightly higher than the depo facility. There was a very slight decrease in the spread between the rates of the core countries and Italian government bonds on the previous quarter. At the end of the quarter spreads narrowed.

With regard to Asset & Liability Management (ALM) of the Group, operational management of the financial risks of the Group's banking book is carried out under the supervision of the CRO Governance Area. 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; 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 Financial Risk Committee within the limits established by the Board of Directors: the Group Treasury and Finance structure actively supports the Committee's decision-making activity by formulating analyses and proposals. The structural component of liquidity risk is managed, based on the liquidity policies defined at Group level, by monitoring the current and future short and long-term liquidity balances, defining the funding plan on the various channels (domestic/international, retail/corporate, secured/unsecured), as well as the loan-deposit gap targets of the Business Units.

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 capability, low leverage, adequate capital base, and prudent asset valuations.

Group liquidity remains high: as at 30 September 2019, both the regulatory indicators LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), 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 September, the Central Banks eligible liquidity reserves came to 197 billion euro (175 billion euro at the end of December 2018), of which 116 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018). The High Quality Liquid Assets (HQLA), which can be easily and immediately converted to meet liquidity needs, represented 62% of the own portfolio and 96% of the unencumbered one.

The loan to deposit ratio at the end of September 2019, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.

In terms of funding, the widespread branch network remains a stable, reliable source: 77% of direct deposits from banking business come from retail operations (331 billion euro). In addition, the following were placed in the nine months: 1 billion euro of covered bonds secured by residential mortgages, 13.2 billion Yen of unsecured senior Tokyo Pro-Bonds, 2.25 billion euro and 2 billion USD of unsecured senior bonds, as well as inaugural unsecured senior bonds in Swiss francs of 250 million CHF.

With regard to the targeted refinancing operation TLTRO II, at the end of September 2019, the Group's participation amounted to 61 billion euro.

The Intesa Sanpaolo Group's leverage ratio was 6.4% as at 30 September 2019.

The capital base also remains high. Own funds, risk-weighted assets and the capital ratios at 30 September 2019 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 September, Own Funds – taking account of the transitional treatment adopted to mitigate the impact of IFRS 9 – came to 53,167 million euro, against risk-weighted assets of 298,393 million euro, which primarily reflected credit and counterparty risk and, to a lesser extent, market and operational risk.

The Total Capital Ratio stood at 17.8%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.6%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 14%.

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 September 2019 took account of the figure of 20% of the net income for the period (net of foreseeable costs), in consideration of the payout ratio of 80% established for 2019 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 in terms of managerial VaR during the first nine months of 2019 was approximately 162 million euro, compared to an average amount of approximately 67 million euro in the same period of 2018. The performance of this indicator – mainly determined by Banca IMI and described in greater detail later in this chapter – derives from an increase in the risk measures, mainly attributable to government bonds dealing, consistently with the 2019 Risk Appetite Framework.

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 1,904 million euro, provide a coverage ratio of 0.5%, 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 context 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 are carefully assessed. Bad loans and unlikely-to-pay loans had coverage levels of 65.3% and 37.6% respectively.

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 63% using level 1 inputs, around 31% using level 2 inputs and only around 6% using level 3 inputs.

Investment levels in structured credit products and hedge funds remained low. The structured credit products generated a positive contribution of 28 million euro during the period, whereas the hedge funds generated a profit of 4 million euro over the nine 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 first nine months. The analyses conducted did not identify any variance compared with budgeted cash flows generated by the business divisions or changes to the main parameters and macroeconomic aggregates that could have an adverse impact on the discount rates underlying the models used to verify the carrying amount of the intangible assets with an indefinite useful life. Specifically, there was a general decrease in both the rates used to discount the cash flows over the "explicit" forecast period and those relating to the terminal value.
On the other hand, for the intangible assets with finite useful lives, no critical factors have arisen regarding the stability of the recoverable amount, thanks to both the positive trend in insurance reserves and in volumes (Assets under Management and Client relationships).

THE BASIC PRINCIPLES OF RISK MANAGEMENT

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are defined by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risk 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.
Subject to the powers of the Corporate Bodies, the Chief Risk Officer Governance Area 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) cooperating with the Corporate Bodies in 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 exposures to the various types of risk and reporting the situation periodically to the Corporate Bodies; (v) carrying out level 2 controls on credit and other risks and ensuring the validation of internal risk measurement systems.
The Parent Company performs a guidance and coordination role with respect to the Group companies[1], 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.

[1] In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. and Autostrade Lombarde S.p.A. and their subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

THE BASEL 3 REGULATIONS

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 2018, except for the extension in May 2019 of the Group’s Institutions, Corporate and Retail internal models to the portfolio acquired from the former Banca Apulia, subsequently merged into Intesa Sanpaolo.
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.
There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and Securities Financing Transactions (SFTs) or operational risks compared to 31 December 2018.
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 2019.
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 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, 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.

Credit quality

(millions of euro)

Captions	30.09.2019			01.01.2019			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	19,936	-13,012	6,924	21,734	-14,596	7,138	-214
Unlikely to pay	11,226	-4,220	7,006	14,268	-5,167	9,101	-2,095
Past due loans	471	-118	353	473	-121	352	1
Non-Performing Loans	**31,633**	**-17,350**	**14,283**	**36,475**	**-19,884**	**16,591**	**-2,308**
Non-performing loans in Stage 3 (subject to impairment)	*31,552*	*-17,330*	*14,222*	*36,396*	*-19,865*	*16,531*	*-2,309*
Non-performing loans designated at fair value through profit or loss	*81*	*-20*	*61*	*79*	*-19*	*60*	*1*
Performing loans	**376,840**	**-1,904**	**374,936**	**373,877**	**-2,105**	**371,772**	**3,164**
Stage 2	*41,120*	*-1,205*	*39,915*	*43,880*	*-1,316*	*42,564*	*-2,649*
Stage 1	*335,075*	*-699*	*334,376*	*329,555*	*-789*	*328,766*	*5,610*
Performing loans designated at fair value through profit or loss	*645*	*-*	*645*	*442*	*-*	*442*	*203*
Performing loans represented by securities	**5,972**	**-29**	**5,943**	**5,131**	**-19**	**5,112**	**831**
Stage 2	*1,806*	*-23*	*1,783*	*986*	*-16*	*970*	*813*
Stage 1	*4,166*	*-6*	*4,160*	*4,145*	*-3*	*4,142*	*18*
Loans held for trading	**31**	**-**	**31**	**75**	**-**	**75**	**-44**
Total loans to customers	**414,476**	**-19,283**	**395,193**	**415,558**	**-22,008**	**393,550**	**1,643**
of which forborne performing	*7,133*	*-308*	*6,825*	*8,322*	*-385*	*7,937*	*-1,112*
of which forborne non-performing	*7,196*	*-3,110*	*4,086*	*9,192*	*-3,755*	*5,437*	*-1,351*
Loans to customers classified among non-current assets held for sale and discontinued operations(*)	**3,262**	**-1,073**	**2,189**	**1,244**	**-310**	**934**	**1,255**

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

(*) As at 30 September 2019, this caption included the portfolio of bad loans, unlikely-to-pay loans soon to be sold (gross exposure of 72 million euro, total adjustments of 31 million euro, net exposure of 41 million euro) and the so-called "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 the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 393 million euro, total adjustments of 55 million euro, net exposure of 338 million euro) and the loans soon to be sold to Prelios (gross exposure of 2,797 million euro, total adjustments of 987 million euro, net exposure of 1,810 million euro).

As at 30 September 2019, the Group's net non-performing loans amounted to 14.3 billion euro, down by 13.9% compared with the beginning of the year, also due to the posting under discontinued operations of the loans and receivables to be sold shortly to Prelios. Non-performing assets decreased as a percentage of total net loans to customers, down to 3.6%, while the coverage ratio for non-performing loans remained high at 54.8%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, at the end of September 2019 bad loans came to 6.9 billion euro net of adjustments (down by -214 million euro on the beginning of the year, or -3%), and represented 1.8% of total loans. During the same period, the coverage ratio stood at 65.3%. Loans included in the unlikely-to-pay category amounted to 7 billion euro, down by 23%, accounting for 1.8% of total loans to customers, with a coverage ratio of 37.6%. Past due loans amounted to 353 million euro, substantially at the same level as the beginning of the year, with a coverage ratio of 25.1%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 4.1 billion euro, with a coverage ratio of 43.1%, while forborne exposures in the performing loans category amounted to 6.8 billion euro.
Overall, the coverage ratio of performing loans amounted to 0.5%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

MARKET RISKS

TRADING BOOK

During the third quarter of 2019, the managerial market risks generated by the Group decreased compared to the average values of the second quarter of 2019, due to the reduction of Banca IMI.
The average managerial VaR of the Group for the period was 145.3 million euro compared to 164.0 million euro (average figure) in the second quarter.

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

(millions of euro)

	2019					2018			
	average 3rd quarter	minimum 3rd quarter	maximum 3rd quarter	average 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	16.8	14.9	18.2	15.0	16.9	13.9	14.4	11.8	7.8
Banca IMI	128.5	111.5	154.7	149.0	160.1	81.3	75.9	50.1	40.3
Total	**145.3**	**127.4**	**172.3**	**164.0**	**177.0**	**95.2**	**90.4**	**61.9**	**48.1**

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

In the first nine months of 2019 the Group's average managerial VaR was 161.8 million euro compared to 67 million euro in the same period of 2018. The performance of this indicator – mainly determined by Banca IMI – derives from an increase in the risk measures, mainly attributable to government bonds dealing, consistently with the 2019 Risk Appetite Framework.

(millions of euro)

	2019			2018		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Intesa Sanpaolo	16.2	13.4	19.0	11.3	6.7	20.9
Banca IMI	145.6	102.5	192.3	55.6	24.6	85.8
Total	**161.8**	**116.6**	**208.8**	**67.0**	**33.7**	**105.3**

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

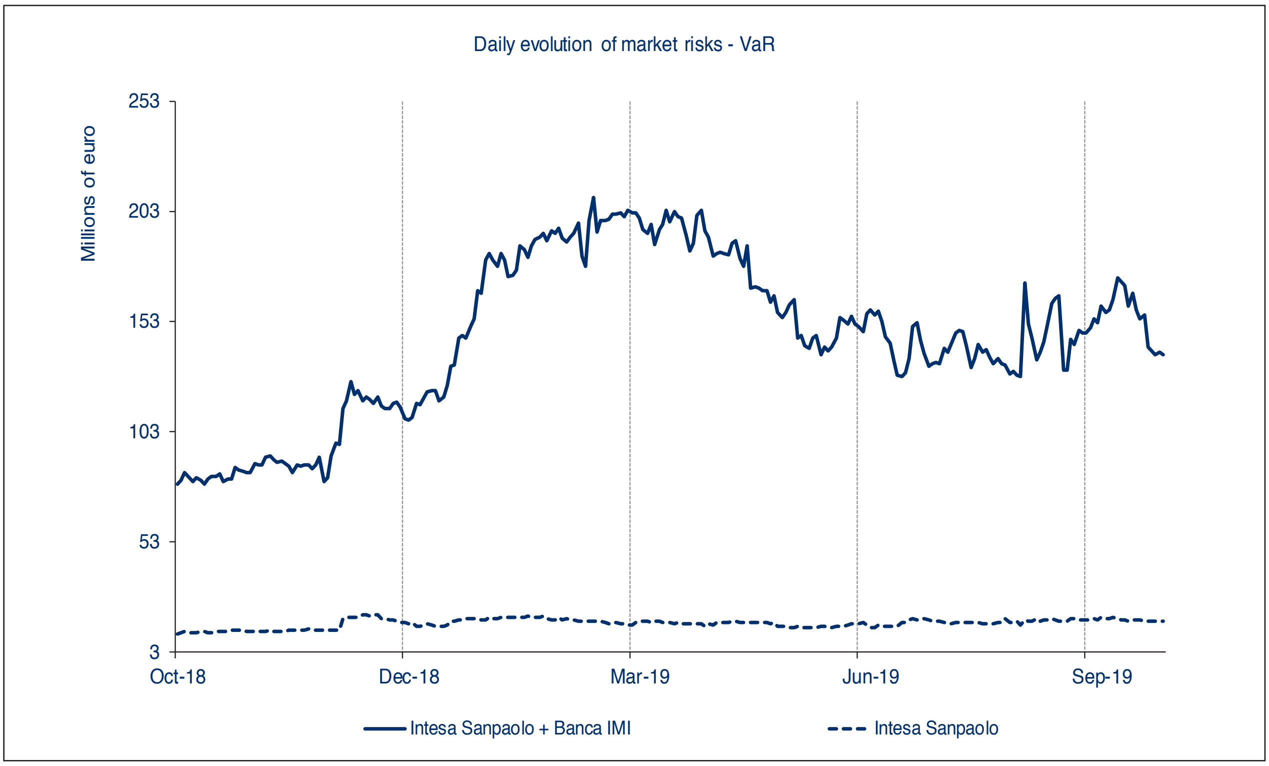
For the Group, the breakdown of risk profile in the third quarter of 2019 with regard to the various factors shows the prevalence of credit spread risk, equal to 74% of total managerial VaR (of which 63% and 76% of the total VaR for Intesa Sanpaolo and Banca IMI, respectively).

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

3rd quarter 2019	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	1%	2%	23%	63%	9%	1%	0%
Banca IMI	2%	0%	20%	76%	0%	2%	0%
Total	**2%**	**0%**	**20%**	**74%**	**1%**	**2%**	**0%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2019, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The performance of the VaR is mainly attributable to the operations of Banca IMI. The indicator increased during the third quarter of 2019, and, specifically, at the start of August, substantially due to the volatility of the credit spread risk factor. The subsequent changes in the measure were mainly attributable to dealing in government bonds and the rolling scenario.



Risk control with regard to the activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The shocks applied to the portfolio were subject to the usual annual assessment and updating. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of September 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	-5%	+5%	Crash	Bullish
Total	5	-14	-274	154	824	-787	19	-8	-3	8

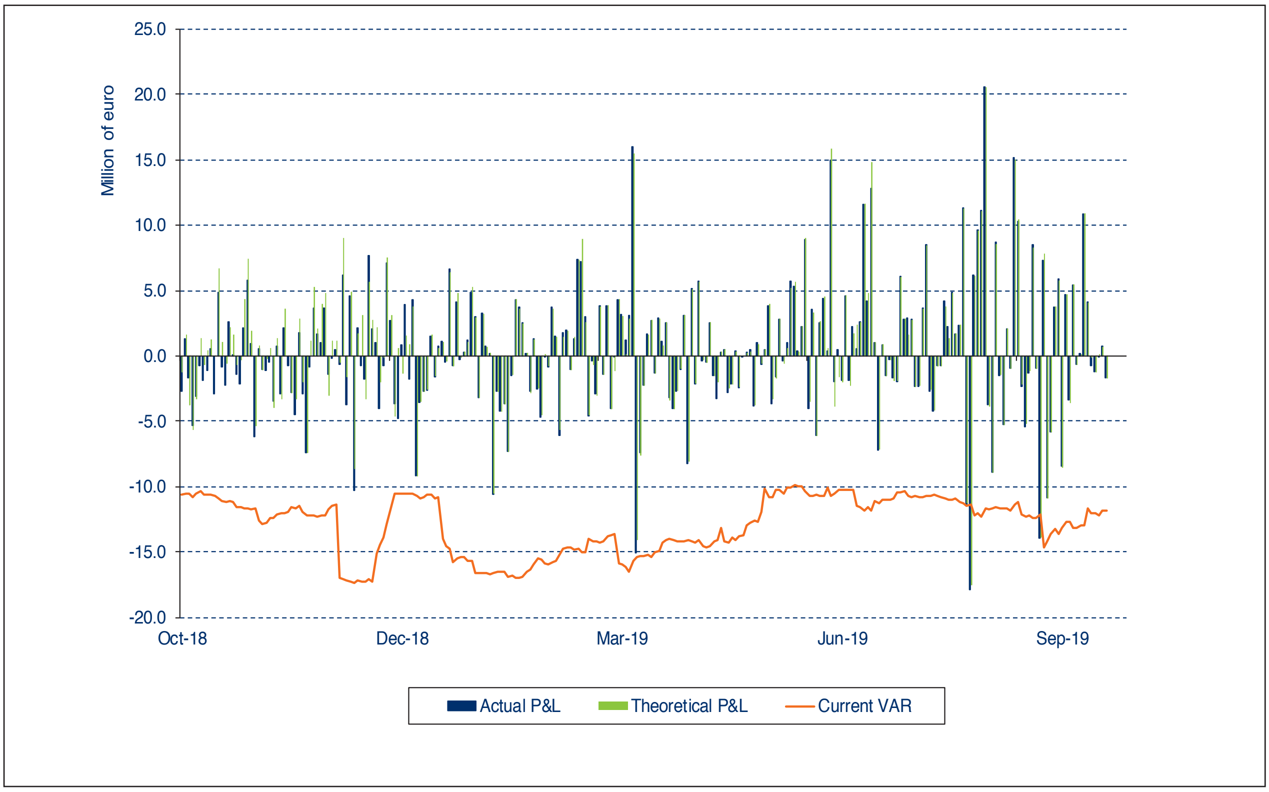
In particular:
- for stock market positions, there would be a loss of 14 million euro in the event of a bullish scenario in the stock markets (sharp rise in equity indices along with a significant decrease in volatility);
- for positions in interest rates, there would be a loss of 274 million euro in the event of an increase in rate curves of 40 bps;
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 787 million euro (primarily relating to government bond positions);
- for positions in exchange rates, there would be a loss of around 8 million euro in the event of appreciation in the Euro;
- lastly, for commodity exposures losses would be recorded for an amount of 3 million euro in case of a 20% decrease in commodity prices (accompanied by an increase in the price of gold of 15%).

Backtesting
The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the 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 the individual desks, net of components which are not considered in backtesting: these include fees, financial costs of managing the positions and P&L reserves that are regularly reported within the managerial area..

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 (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 four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series

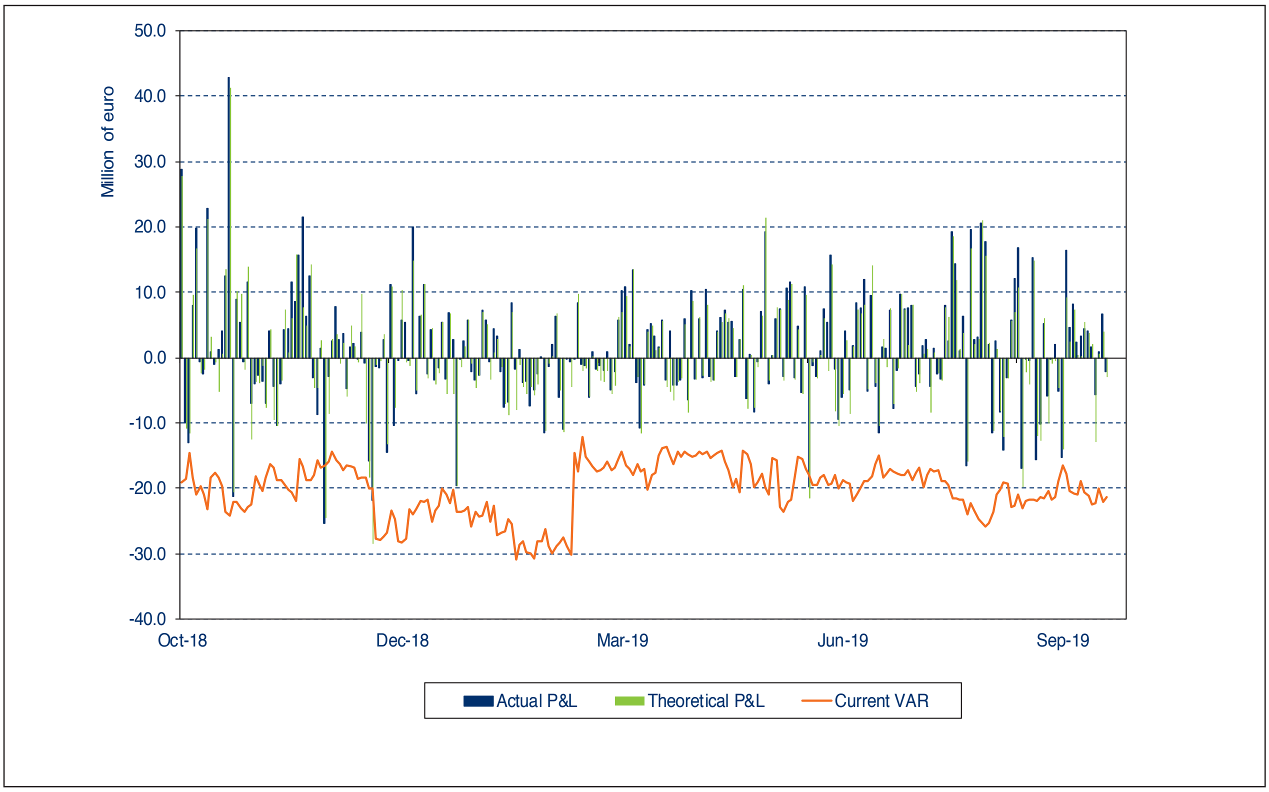
Backtesting in Intesa Sanpaolo

Over the last quarter there have been two backtesting exceptions. The breaches were caused by the volatility of the interest rate component in the trading book.



Backtesting in Banca IMI

Over the last twelve months there have been three backtesting exceptions. The breaches recorded in the second half of 2018 were caused by the credit component of the trading book. Instead, the most recent exception was linked to the volatility of interest rates.



BANKING BOOK

At the end of September 2019, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to 434 million euro.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 989 million euro, -1,038 million euro and 1,926 million euro, respectively, at the end of September 2019.

Interest rate risk, measured in terms of VaR, recorded a value of 273 million euro at the end of September 2019.

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (Held to Collect and Sell) category, amounted to 61 million euro at the end of September 2019.

The table below shows the changes in the main risk measures during the third quarter of 2019.

(millions of euro)

	3rd quarter 2019			30.09.2019	31.12.2018
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	688	333	1,226	434	1,143
Shift Sensitivity of Net Interest Income -50bp	-1,005	-952	-1,041	-1,038	-928
Shift Sensitivity of Net Interest Income +50bp	967	914	1,009	989	886
Shift Sensitivity of Net Interest Income +100bp	1,887	1,786	1,964	1,926	1,926
Value at Risk - Interest Rate	143	74	273	273	91
Value at Risk - Equity investments in listed companies	63	55	75	61	52

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the abovementioned quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

(millions of euro)

		1st quarter 2019 impact on shareholders' equity at 31.03.2019	2nd quarter 2019 impact on shareholders' equity at 30.06.2019	3rd quarter 2019 impact on shareholders' equity at 30.09.2019	Impact on shareholders' equity at 31.12.2018
Price shock	10%	59	56	52	39
Price shock	-10%	-59	-56	-52	-39

LIQUIDITY RISK

In 2019, the Group's liquidity position remained within the risk limits provided for in the current Group's Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached levels well above the EU regulatory requirements. Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, has amounted to an average of 161.8%.
As at 30 September 2019, the eligible liquidity reserves for the Central Banks, considering the reserves held with Central Banks (Cash and Deposits), amounted to a total of 197 billion euro (175 billion euro at the end of December 2018), of which 116 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018). The HQLA component represented 62% of the own portfolio and 96% of the unencumbered one. 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 maximum threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period considerably longer than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy – Excluding insurance companies

(millions of euro)

Assets / liabilities at fair value	30.09.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	19,484	33,015	2,787	11,037	28,462	2,616
a) Financial assets held for trading	19,124	32,068	404	10,748	27,655	403
of which: Equities	*717*	*-*	*-*	*500*	*-*	*-*
of which: quotas of UCI	*638*	*2*	*38*	*913*	*2*	*47*
b) Financial assets designated at fair value	*-*	*195*	*-*	*-*	*208*	*-*
c) Other financial assets mandatorily designated at fair value	*360*	*752*	*2,383*	*289*	*599*	*2,213*
of which: Equities	*2*	*96*	*175*	*2*	*96*	*178*
of which: quotas of UCI	*337*	*118*	*1,354*	*267*	*-*	*1,334*
2. Financial assets designated at fair value through other comprehensive income	67,738	7,061	419	53,527	6,399	543
of which: Equities	*601*	*2,043*	*382*	*593*	*2,119*	*447*
3. Hedging derivatives	-	3,671	16	-	2,983	10
4. Property and equipment	-	-	5,653	-	-	5,720
5. Intangible assets	-	-	-	-	-	-
Total	**87,222**	**43,747**	**8,875**	**64,564**	**37,844**	**8,889**
1. Financial liabilities held for trading	22,617	31,217	104	14,928	26,824	143
2. Financial liabilities designated at fair value	-	4	-	-	4	-
3. Hedging derivatives	-	12,879	3	-	7,216	5
Total	**22,617**	**44,100**	**107**	**14,928**	**34,044**	**148**

Fair value hierarchy – Insurance companies

(millions of euro)

Assets / liabilities at fair value	30.09.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	286	11	45	231	11	47
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*117*	-	*45*	*61*	-	*47*
2. Financial assets designated at fair value through profit or loss	81,628	43	399	73,920	121	273
of which: Equities	*2,181*	-	-	*1,678*	-	-
of which: quotas of UCI	*74,710*	-	-	*67,729*	-	*19*
3. Financial assets available for sale	80,985	1,618	1,740	71,254	2,286	1,382
of which: Equities	*1,314*	-	-	*979*	-	-
of which: quotas of UCI	*10,118*	-	*1,740*	*10,256*	*1*	*1,382*
4. Hedging derivatives	-	279	-	-	21	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total Caption 35	**162,899**	**1,951**	**2,184**	**145,405**	**2,439**	**1,702**
1. Financial liabilities held for trading	4	97	-	3	41	-
2. Financial liabilities designated at fair value through profit or loss	-	74,304	-	-	67,755	-
3. Hedging derivatives	-	-	-	-	1	-
Total Caption 15	**4**	**74,401**	**-**	**3**	**67,797**	**-**

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, which amounted to 2,018 million euro as at 31 December 2018, came to 3,286 million euro as at 30 September 2019, showing a net increase of 1,268 million euro. The exposure includes investments in ABSs (asset-backed securities) of 1,971 million euro, in CLOs (collateralised loan obligations) of 1,236 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 79 million euro, subject to constant, gradual disposals, without any plans for additional transactions.

(millions of euro)

Accounting categories	Exposure as at 30.09.2019				31.12.2018	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	388	933	-	**1,321**	**1,031**	290	28.1
Financial assets mandatorily measured at fair value	-	24	-	**24**	**63**	-39	-61.9
Financial assets measured at fair value through other comprehensive income	453	818	-	**1,271**	**724**	547	75.6
Financial assets mesured at amortised cost	395	196	79	**670**	**200**	470	
Total	**1,236**	**1,971**	**79**	**3,286**	**2,018**	**1,268**	**62.8**

In this disclosure structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers.

The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and disposals of the portfolio, mainly referring to positions which at the time were affected by the financial crisis, on the other hand.

The exposure in funded and unfunded ABSs/CLOs measured at fair value rose from 1,818 million euro in December 2018 to 2,616 million euro in September 2019, a net increase of 798 million euro attributable to Banca IMI and, only to a marginal extent, to the Parent Company due to the higher level of investments made compared to the disposals in the portfolio of assets measured at fair value through other comprehensive income and of financial assets held for trading. The portfolio mandatorily measured at fair value was only subject to sales and redemptions.

The exposure in securities classified as assets measured at amortised cost rose from 200 million euro in December 2018 to 670 million euro in September 2019, also due to the higher level of investments made in the period by Banca IMI.
The investments made by Banca IMI in the portfolio measured at fair value and the portfolio measured at amortised cost consisted equally of ABSs with underlying residential mortgages and CLOs with mainly AA ratings.
From the perspective of the income statement, a profit of +28 million euro was posted for the first nine months of 2019, against the +8 million euro in the same period of 2018.
Specifically, as at 30 September 2019, the profits (losses) on trading - caption 80 of the income statement - for the exposures in funded and unfunded CLOs/ABSs amounted to +13 million euro, compared with -5 million euro in September 2018.
The profits (losses) from financial assets mandatorily measured at fair value amounted to +14 million euro (+8 million euro in September 2018) and primarily related to sales of funded and unfunded ABS positions in the Parent Company's loan portfolio, which were reclassified in 2018 into the new accounting category upon First-Time Adoption (FTA) of IFRS 9.
The exposures to funded and unfunded ABSs/CLOs in securities classified as assets measured at fair value through other comprehensive income primarily refer to the subsidiary Banca IMI and recorded a net increase in fair value of +2 million euro as at 30 September 2019 through a shareholders' equity reserve (from a nil reserve at the end of December 2018 to a reserve of +2 million euro in September 2019); there was also an impact of +1 million euro from sales made in the first nine months of 2019, a similar result to that seen in September 2018.
Substantially nil impacts were recognised for the securities classified as assets measured at amortised cost in the first nine months of 2019 (in September 2018 the impact was +4 million euro).
With regard to the monoline and non-monoline packages, as in 2018, there were no positions held in 2019.

(millions of euro)

Income statement results broken down by accounting category	**30.09.2019**				**30.09.2018**	**changes**	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	2	11	-	**13**	**-5**	18	
Financial assets mandatorily measured at fair value	-	14	-	**14**	**8**	6	75.0
Financial assets measured at fair value through other comprehensive income	-	1	-	**1**	**1**	-	-
Financial assets mesured at amortised cost	-	-	-	**-**	**4**	-4	
Total	**2**	**26**	**-**	**28**	**8**	**20**	

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 2018 financial statements.

No issues were carried out in the third quarter of 2019. As regards the first six months of the year, reference is made to the Half-yearly Report as at 30 June 2019.

INFORMATION ON LEVERAGED TRANSACTIONS

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 declared purpose of the 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 scope identified in the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to parties whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, individuals, credit institutions, companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties if not owned by financial sponsors, are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate, object financing and commodities financing) and certain other types of credit, such as trade finance operations, are also excluded.

As at 30 September 2019, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 22.4 billion euro, relating to approximately 2,000 credit lines (also as at 31 December 2018 the amount was 22.4 billion euro, relating to around 2,900 credit lines).

In accordance with the requirements of the ECB Guidance, a specific limit for the outstanding stock of leveraged transactions was submitted for approval to the Board of Directors, within the framework of the 2019 Credit Risk Appetite.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 30 September 2019 amounted to 117 million euro in the trading book and 172 million euro in the banking book, compared to 146 million euro and 88 million euro respectively in December 2018. The investments allocated to the banking book are recognised under financial assets mandatorily measured at fair value and relate to investments made in funds that have medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

During 2019, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the total exposure. In further detail, total redemptions in the first nine months of 2019 amounted to 31 million euro.

In the banking book, higher investments in new positions for 75 million euro and in positions already held by the Bank for 25 million euro were added, partially offsetting them, to the disposals during the year totalling 20 million euro.

In terms of effects on the income statement, profits (losses) on trading – caption 80 of the income statement – showed a positive contribution of 1 million euro at the end of September 2019, compared to a loss of -11 million euro in September 2018, while the net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement – recorded a positive contribution of 3 million euro, compared to a loss of -3 million euro in September 2018.

Both positive effects were mainly due to a general improvement in the valuations of the funds in the portfolio. Specifically, systematic long/short equity funds showed good performance and discretionary long/short equity funds showed excellent results, against slighter improvement in US credit/distressed and global macro strategy funds.

Overall, the strategy for the portfolio remained substantially prudent.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 September 2019, the Intesa Sanpaolo Group, in relation to derivatives trading with retail counterparties, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 9,250 million euro (6,602 million euro as at 31 December 2018). The notional value of these derivatives totalled 61,287 million euro (57,047 million euro as at 31 December 2018).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures was 6,253 million euro (4,452 million euro as at 31 December 2018).
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 1,626 million euro as at 30 September 2019 (1,412 million euro as at 31 December 2018). The notional value of these derivatives totalled 19,985 million euro (24,649 million euro as at 31 December 2018).
The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 September 2019, this led to a negative effect of 60 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 of the section on accounting policies in the Notes to the 2018 Financial Statements and the Half-yearly Report as at 30 June 2019.
Please note that contracts made up of combinations of more elementary derivative instruments are 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.
For regulatory purposes, the Group adopts the advanced measurement approach (AMA), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement. The capital absorption resulting from this process amounted to 1,468 million euro as at 30 September 2019, unchanged compared to 30 June 2019.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
During the quarter, no significant new legal disputes arose, with the exception of that set out below with regard to the subsidiary Sanpaolo Invest.
For the main pending disputes, the significant developments in the third quarter of 2019 are illustrated below, referring to the Notes drawn up for the 2018 Financial Statements and the previous quarters of 2019 for the summary description of those disputes.

Private banker (Sanpaolo Invest) - An inspection conducted by the Audit function showed serious irregularities by a private banker of Sanpaolo Invest, whose portfolio comprises more than 800 customers.
The Company notified the competent authorities of the situation and terminated the agency relationship. The Surveillance Body which keeps the single register of financial advisors ordered the preventive suspension of the former private banker from the register for 180 days pending the completion of the preliminary investigation, while the judicial authorities ordered seizures at banks.
With regard to the accurate definition of the total amount of the misappropriations committed and the untrue account statements sent to customers, precise investigations are under way, and meetings were began on 1 July 2019 with all customers.
Suitable provisions have been allocated, also taking account of the existing insurance coverage.

Dargent Lawsuit – You may refer to the Half-yearly Report as at 30 June 2019 for a broader description of the dispute. The *Juge Rapporteur* filed its report in the third quarter, stating that the appealed decision seems appropriately justified when criticizing the bank’s misconduct because of undue granting of credit and unlawful support to the company, which later went bankrupt. However, the report does not introduce any decisive elements to quantify the damages. The hearing before the Court of Cassation has been scheduled on 26 November 2019.

Offering of diamonds - As part of the criminal proceedings initiated by the Milan Public Prosecutor’s Office, in the first few days of October, the notice of conclusion of the investigation was served, which showed no significant new elements in relation to what was previously known. Thus, 2 operators are currently under investigation for alleged aggravated fraud (in collusion with other parties to be identified) and other persons are being identified for allegations of self-laundering, while ISP is being charged with the administrative offence pursuant to Italian Legislative Decree 231/2001 in relation to this latter predicate offence.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
In the third quarter there was no new litigation of a significant amount involving Intesa Sanpaolo. With regard to the situation of the sold company Infogroup Informatica e Servizi Telematici S.p.A. for 2014 and 2015, refer to the half-yearly report for a summary thereof. During the period, the discussions with the tax authorities continued in relation to the application of the VAT exemption for services provided to the consortium companies in accordance with Article 10, paragraph 2, of Presidential Decree no. 633 of 1972. To date, the company has not been served any assessments.
With regard to the Intesa Sanpaolo branches located abroad, a VAT tax audit is underway on the London branch for the years 2016, 2017 and 2018, as well as an audit on federal direct taxes at the New York branch for the tax period 2016. No claims have been made for the time being.
With regard to IMI Fondi Chiusi SGR, in June a notice of settlement was served, resulting from the disavowal of the IRES credit shown in the withholding agent tax return for 2015, deriving from the loss on operations accrued as at 30 June 2011 by the mutual investment funds administered (value of the dispute: 3.9 million euro, of which 2.7 million euro for taxes, 0.9 million euro for penalties and 0.3 million euro for interest). The disavowal derives from the failure to indicate that the credit was carried forward in the withholding agent tax returns for the years 2011 to 2014.
For Mediocredito Italiano, with the notification on 31 July 2019 of the tax audit report, the Milan Tax Police (Guardia di Finanza) concluded the audit of VAT for 2014, as part of the general audit of direct taxes for the tax years 2015 and 2017 and of VAT for the years 2014 and 2015. For the years 2015 and 2017, the audit, which is currently suspended, will resume in 2020.
In brief, two breaches of VAT regulations were found: the first, referring to the early surrender by two customers who are natural persons of a leased vessel, under the extraterritorial VAT regime pursuant to Art. 7-bis of Presidential Decree no. 633/72 (higher VAT of 0.65 million euro assessed); the second, relating to the application of the VAT exemption regime pursuant to Art. 8-bis of Presidential Decree no. 633/72 to boat lease contracts for ocean-going vessels to be used for commercial activities (higher VAT of 1.7 million euro assessed).

With regard to the former Banca Nuova, the tax audit by the Sicily Regional Office of the Italian Revenue Agency - Large Taxpayers Office on IRES, IRAP and VAT for the tax year 2015 began on 12 June 2019. The auditors were provided with extensive assistance during all the phases of the investigation and, according to the information provided, the audit is expected to be concluded shortly without claims of significant amounts.

INSURANCE RISKS

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 September 2019, the investment portfolios of Group companies, recorded at book value, amounted to 169,658 million euro. Of these, a part amounting to 87,852 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 81,807 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, 84.2% of assets, i.e. 73,809 million euro, were bonds, whereas equity instruments represented 1.7% of the total and amounted to 1,511 million euro. The remainder (12,308 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14.1%).
The carrying value of derivatives came to approximately 224 million euro, of which -56 million euro relating to effective management derivatives[2], and the remaining portion (280 million euro) is attributable to hedging derivatives.
At the end of the first nine months of 2019, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 771 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 15 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 3,860 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 5.9% of total investments and A bonds approximately 7.8%. Low investment grade securities (BBB) were approximately 84% of the total and the portion of speculative grade or unrated was minimal (approximately 2.3%).
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 79.1% of the total investments, while financial companies (mostly banks) contributed almost 11% of exposure and industrial securities made up approximately 9.9%.
At the end of the third quarter of 2019, 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 3,845 million euro, with 3,236 million euro due to government issuers and 609 million euro to corporate issuers (financial institutions and industrial companies).

2 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.

Accounting policies

Criteria for the preparation of the Interim Statement

General preparation principles

As known, with Legislative Decree 25 of 15 February 2016, Directive 2013/50/EU, amending Directive 2004/109/EC (i.e. “Transparency Directive”), has been transposed into the Italian legal system. By transposing the European regulation, the provisions concerning financial reports were changed, among others, innovating the rules regarding the publication, by the listed issuers with Italy as Member State of origin, of additional periodic information other than the annual report and half-yearly report. The new wording of Article 154-ter (Financial reports), paragraphs 5 and 5-bis, of the Consolidated Law on Finance, allows CONSOB to arrange, towards the issuers stated above, the obligation to publish the additional periodic information. However, in exercising its duties – and following a consultation process – CONSOB has given the issuers the choice on publishing the Interim Statements.
In this context, Intesa Sanpaolo publishes – on a voluntary basis – financial information as at 31 March and 30 September of each financial year, in addition to the annual report and half-yearly report. This information consists of interim statements on operations approved by the Board of Directors, basically providing continuity with the interim statements published in the past.

The Interim Statement as at 30 September 2019 has been prepared, in consolidated form, in compliance with the recognition and measurement criteria required by 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 as provided for by Community Regulation 1606 of 19 July 2002.

The accounting standards adopted in preparation of this consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group 2018 Annual Report, to which reference should be made for their full description, except for the amendments deriving from the mandatory application, from 1 January 2019, of the new IFRS 16 “Leases”, as already disclosed in the Consolidated interim statement as at 31 March 2019 and in the Consolidated Half-yearly Report as at 30 June 2019.
This Interim Statement provides details of the transition to the new standard and the consequent changes to the accounting policies of the Intesa Sanpaolo Group, together with an analysis of the financial statement captions that have been changed following the introduction of IFRS 16.

The Interim Statement as at 30 September 2019, drawn up in euro as the functional currency, contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders’ equity, and the explanatory notes. They are also complemented by information on significant events which occurred in the period, and on the main risks and uncertainties to be faced in the remaining months of the year.
As further detailed in the 2018 financial statements, following the Group’s decision to exercise the option of adopting the Deferral Approach, also provided for banking-led financial conglomerates, specific balance sheet and income statement captions have been added to the consolidated financial statement layouts established in Circular 262 to present the valuation of assets and liabilities pertaining to insurance companies and the related profit or loss effects measured in accordance with IAS 39.
The amounts indicated in the financial statements and explanatory notes are expressed in millions of euro, unless otherwise specified.
In addition to the amounts for the reporting period, the financial statements also indicate the corresponding comparison figures for the period ended 30 September 2018 for the Income statement and as at 31 December 2018 for the Balance sheet. With regard to the first-time adoption (FTA) of IFRS 16, the Group has chosen to adopt the modified retrospective approach, which provides the option, established by the standard, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information of the financial statements of first-time adoption of IFRS 16. As a result, the financial statement figures for 2019 are not comparable with regard to the valuation of the rights of use and the corresponding lease liability. However, in the Report on Operations, the income statement and balance sheet figures affected by the standard have been restated – as at 1 January 2019 – to enable like-for-like comparison.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the Interim Statement as at 30 September 2018 and in the 2018 Annual Report, together with specific reconciliations between these and the reclassified statements.

The assets held for sale include the unlikely-to-pay loan portfolio to be sold to Prelios, 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.
The assets held for sale include credit exposures related to individual disposals that will be completed in the coming months and properties owned by the Risanamento Group that are the subject of a specific agreement with a leading operator in the sector executed on 2 October 2019.
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. Following the issue by the Ministry of the Economy and Finance of the decree

formalising the specific guarantee to cover the sell-back price, the Intesa Sanpaolo Group has to date carried out two sell-back transactions regarding the high-risk loans to the Banks in compulsory administrative liquidation, on 11 May 2019 and 12 October 2019, respectively.

The Interim Statement as at 30 September 2019 is accompanied by certification of the Manager responsible for preparing the Company's financial reports pursuant to Article 154-bis of the Consolidated Law on Finance, and the consolidated financial statements are subject to a limited review by the Independent Auditors KPMG for the sole purpose of issuing the certification required by Art. 26 (2) of European Union Regulation no. 575/2013 and European Central Bank Decision no. 2015/656.

Transition to IFRS 16

The regulations

The new accounting standard IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Regulation no. 1986/2017, replaced IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases – Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease", with effect from 1 January 2019, and established the requirements for accounting for lease contracts.

In accordance with the new standard, entities are required to decide whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a set period of time. As a result, rental, hire or free loan agreements come under the scope of the new rules.

In view of the above, significant changes have been made to the accounting for lease transactions in the financial statements of the lessee/user, with the introduction of a single accounting model for lease contracts for the lessee, based on the right-of-use model. Specifically, the main change consists of the elimination of the distinction between operating and finance leases, established by IAS 17: all lease contracts must therefore be accounted for in the same way with the recognition of an asset and a liability. Unlike the standards in force until 31 December 2018, the accounting model envisages the recognition of the right of use of the leased asset under the Balance Sheet Assets and the liabilities for lease payments not yet paid to the lessor under the Balance Sheet Liabilities. The method of recognition of the profit or loss components has also changed: in IAS 17 lease payments were shown under the caption Administrative Expenses, whereas under IFRS 16 the charges relating to the amortisation of the "right of use" and the interest expense on the payable are recognised.

In terms of disclosure, the minimum information required from the lessees includes:

- the sub-division of the leased assets among different "classes";
- an analysis by due date of the liabilities related to the leases;
- the information that is potentially helpful for a better understanding of the entity's activities with regard to the lease contracts (for example, prepayment or extension options).

However, there are no substantial changes, other than some additional disclosure requirements, for the accounting for leases by the lessors, where the current distinction is maintained between operating leases and finance leases.

In addition, in accordance with the requirements of IFRS 16 and the IFRIC clarifications ("Cloud Computing Arrangements" document of September 2018), software has been excluded from the scope of IFRS 16 and is therefore accounted for in accordance with IAS 38 and its requirements.

From 1 January 2019, the effects on the financial statements resulting from the adoption of IFRS 16 can be identified for the lessee – with the same income and final cash flows – as an increase in the assets recorded in the financial statements (leased assets), an increase in the liabilities (the payable for the leased assets), a reduction in administrative expenses (lease payments) and an accompanying increase in financial costs (the remuneration of the payable recognised) and depreciation (relating to the right of use). With regard to the income statement, when the entire term of the contracts is considered, the economic impact does not change over the period of the lease, both when the former IAS 17 or the new IFRS 16 are applied, but its distribution over time is different.

In 2018, the Intesa Sanpaolo Group initiated a specific project for the implementation of IFRS 16 – Leases, aimed at examining and determining the qualitative and quantitative impacts, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of its individual subsidiaries. From a procedural perspective, a specific application has been implemented at Group level (except for some companies located abroad, which have adopted a solution specific to their circumstances) for the determination of values according to IFRS 16.

Scope of the contracts - lessee side

Classification and analysis of lease transactions in the light of the applicable regulations

As noted above, the Standard applies to all types of contracts containing a lease, i.e. contracts that give the lessee the right to control the use of an identified asset for a particular period of time (period of use) in exchange for consideration.

The logic underlying the Standard is that "control" over an asset requires that asset to be identified, for example when it is explicitly specified in the contract, or if it is implicitly specified at the time it is made available for use by the customer. An asset is not specified if the supplier has the substantive right to substitute it, or if the supplier has the practical ability to substitute the asset with alternative assets throughout the period of use and benefits economically from the exercise of that right.

Once it has been established that the underlying asset of the contract is an identified asset, it is necessary to assess whether the entity has the right to control its use because it has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the identified asset.

For the Intesa Sanpaolo Group, the analysis of contracts falling within the scope of this standard concerned those relating to the following cases: (i) real estate, (ii) vehicles, and (iii) hardware. The real estate lease contracts represent the most significant area of impact from implementation, because these contracts represent 98% of the value of the rights of use.

In contrast, although they are significant in terms of number, the impact of vehicles is negligible in terms of the amount of the right of use. Lastly, the impacts of the hardware component are marginal.
Real estate lease contracts in Italy include, for the most part, properties designated for use as offices or bank branches. The contracts normally have a term of more than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions.
These contracts usually do not include the option to purchase at the end of the lease or significant restoration costs for the Bank.
The contracts relating to other leases concern vehicles and hardware. For vehicles, these are long-term rental contracts relating to the company fleet made available to employees (mixed use) or to the organisational structures of the individual companies. They have a multi-year term, with no renewal options, and these contracts generally do not include the option to purchase the asset.

The choices made by the Intesa Sanpaolo Group

It is worth noting some "general" choices made by the Intesa Sanpaolo Group regarding the methods of presentation of the effects of first-time adoption of the standard, as well as some rules to be applied upon full adoption for the accounting for lease contracts.
The Group has chosen to carry out the first-time adoption (FTA) of IFRS 16 through the modified retrospective approach, which provides the option, established by the standard, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information of the financial statements of first-time adoption of IFRS 16. As a result, the financial statement figures for 2019 will not be comparable with regard to the valuation of the rights of use and the corresponding lease liability. However, in the Report on Operations, the income statement and balance sheet figures affected by the standard have been restated – as at 1 January 2019 – to enable like-for-like comparison.
Upon first-time adoption, the Group has adopted some of the practical expedients provided for in the standard in paragraph C10 and following. In particular, contracts with a remaining lease term of 12 months or less ("short term") have not been included. The Group has not made any provisions for onerous leases measured pursuant to IAS 37 and recognised in the Financial Statements as at 31 December 2018.
Also after full adoption, the Group has also decided not to apply the new standard to contracts with a total lease term of 12 months or less and to contracts with a value of the underlying asset, when new, of 5,000 euro or less ("low value"). In this case, the lease payments for these leases are recognised as an expense – in the same way as in the past – on a straight-line basis for the lease term or on another systematic basis if that basis is more representative of the pattern of the lessee's benefit.
With regard to the sale and leaseback agreements outstanding as at the date of first-time adoption, the Intesa Sanpaolo Group has applied the transition model for the other lease contracts to the leases resulting from these transactions, and classified as operating leases according to IAS 17 requirements, as required by the standard.
A summary is provided below of some of the choices made by the Group regarding the treatment of leases on the lessee side, such as, for example, the contractual term, discount rate, and lease and non-lease components.

Contractual term

The lease term is determined by the non-cancellable period for which the Group has the right to use the underlying asset, also considering: (i) the periods covered by the option to extend the lease, if the lessee is reasonably certain to exercise that option; and (ii) the periods covered by the option to terminate the lease, if the lessee is reasonably certain not to exercise that option.
At the transition date and at the commencement date of each contract entered into after 1 January 2019, each Group Company has established the term of the lease, based on the facts and circumstances that exist at that date and that have an impact on the reasonable certainty of exercising the options included in the lease arrangements.
With regard to the real estate leases, the Group has decided to consider only the first renewal period for all new contracts (and as at the FTA date) as reasonably certain, unless there are particular contractual clauses, facts or circumstances that suggest that additional renewals should be considered or that determine the end of the lease.
On the basis of the characteristics of the Italian lease contracts and the provisions of Law 392/1978, in the event of the signing of a new lease contract with a contractual term of six years and the option to automatically renew the contract after six years for another six years, the total term of the lease will be at least twelve years. This general rule is superseded if there are new elements or specific situations within the contract.
For the international companies, each Legal Entity will apply the general rule of considering a renewal in the first period, unless local regulations and business decisions lead to different choices. In the latter case, the company must assess the reasonable certainty of exercising the option, taking into account both the requirements of the Standard and the strategy regarding the Real Estate contracts, the general business plan and the local laws and customs.
In line with the choice made for the real estate contracts, for the other types of leases, in which the contract includes a renewal clause, the Group has decided – for all the new contracts (and also at the FTA date) – to assess the reasonable certainty of exercising the option, taking into account both the requirements of the Standard and the strategy regarding the individual contracts.

Discount rate

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. For leases from the lessee's point of view, in some cases, for example for rental agreements, the implicit interest rate cannot always be readily determined without using estimates and assumptions (the lessee does not have enough information about the unguaranteed residual value of the leased asset). In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

Lease and non-lease components
The Group has also decided not to separate the service components from the lease components and to consequently recognise the entire contract as a lease, because the service components are not significant.

The effects of first-time adoption (FTA) of IFRS 16
The adjustment of the opening balance sheet following the adoption of IFRS 16 using the modified retrospective approach has resulted in an increase in assets following the recognition of the new rights of use at Group level of 1,599 million euro and in the financial liabilities (payable to the lessor) of the same amount. There have therefore been no impacts on shareholders' equity from the first-time adoption of the standard, because, as a result of the decision to adopt the modified approach (option B), upon first-time adoption the values of the assets and liabilities are the same, net of the reclassification of accruals and deferrals and the presentation of leases previously classified as finance leases under IAS 17.

At the time of the transition, IFRS 16 allows a company to choose whether to apply the new definition of lease contract to all contracts or whether to use a "practical expedient" whereby the company may continue to regard as valid the assessment of the contracts previously identified as leases under IAS 17 and IFRIC 4 (paragraph C3 of IFRS 16).

Specifically, the Group has used the practical expedient provided for in paragraph C3 above for the FTA. In particular, for all operating leases already covered by IAS 17, it has recognised the liability determined as the discounted future lease payments and the right of use of the same amount (so-called modified B).

For leases that were classified as finance leases applying IAS 17, the Group, again in its capacity as the lessee, has decided, as envisaged by paragraph C11 of IFRS 16, to establish that the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17, namely the carrying amount as at 31 December 2018.

To provide a better representation of the differences between the scope of IAS 17 and the new standard, the table below shows the reconciliation between the two scopes (as required by paragraph C12 of IFRS 16), detailing in particular:
- the commitments arising from operating leases disclosed in accordance with IAS 17 as at 31 December 2018;
- the effect of the discounting of the operating leases using the incremental borrowing rate as at the date of initial application; and
- the lease liabilities recognised in the balance sheet as at the date of initial application.

For the purpose of reconciling the lease payables as at 1 January 2019, leases previously classified as finance leases, accounted for in accordance with IAS 17 and carried forward, have also been included.

Reconciliation between Commitments for IAS 17 operating leases as at 31 December 2018 and Liabilities for IFRS 16 leases as at 1 January 2019

(millions of euro)

Reconciliation of lease liabilities	**01.01.2019**
Commitments for undiscounted operating leases applying IAS 17 as at 31.12.2018	1,893
Exceptions to recognition pursuant to IFRS 16	-29
- short-term leases	*-18*
- leases of low value	*-11*
Other changes	-106
Undiscounted operating lease liabilities to be recognised in the balance sheet as at 01.01.2019	1,758
Discounting effect on operating lease liabilities	-159
Lease Liabilities for leases applying IFRS 16 as at 01.01.2019	**1,599**
Lease Liabilities for finance leases applying IAS 17 as at 01.01.2019	4
Total Lease Liabilities applying IFRS 16 as at 01.01.2019	**1,603**

The lease liabilities have been discounted at the rate of 1 January 2019, which refers to the expiry dates of the individual contracts.

The weighted average incremental borrowing rate for the lessee applied to the lease liabilities recognised in the balance sheet at the date of initial application is 1.61%.

With regard to the property and equipment, the table below shows the breakdown of the categories of rights of use identified, of which 22 million euro relating to finance leases. Specifically, the rights of use acquired through leases relating to real estate contracts are shown under sub-caption "b) buildings"; those relating to contracts for cars and other vehicles are shown under sub-caption "f) other"; and those relating to hardware are shown under sub-caption "e) electronic equipment".

(millions of euro)

Rights of use acquired through the lease	01.01.2019
Property and equipment used in operations:	**1,628**
a) land	
b) buildings	1,591
c) furniture	
d) valuable art assets and furniture	
e) electronic equipment	11
f) other	26
Investment property:	**1**
a) land	
b) buildings	1
Total	**1,629**

Assets, Liabilities and shareholders' equity as at 1 January 2019

The tables below show the breakdown of the figures as at 1 January 2019 relating to the impacts on the balance sheet captions, together with the various categories of rights of use identified.

Assets

(millions of euro)

Assets		31.12.2018 Published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10.	Cash and cash equivalents	10,350		10,350
20.	Financial assets measured at fair value through profit or loss	42,115		42,115
30.	Financial assets measured at fair value through other comprehensive income	60,469		60,469
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546		149,546
40.	Financial assets measured at amortised cost	476,503		476,503
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952		952
50.	Hedging derivatives	2,993		2,993
60.	Fair value change of financial assets in hedged portfolios (+/-)	124		124
70.	Investments in associates and companies subject to joint control	943		943
80.	Technical insurance reserves reassured with third parties	20		20
90.	Property and equipment	7,372	1,607	8,979
100.	Intangible assets	9,077		9,077
110.	Tax assets	17,253		17,253
120.	Non-current assets held for sale and discontinued operations	1,297		1,297
130.	Other assets	8,707	-12	8,695
Total assets		**787,721**	**1,595**	**789,316**

The amount of 8,979 million euro for property and equipment includes a total of 1,629 million euro of rights of use, of which 22 million euro relating to finance leases already recognised in the financial statements as at 31 December 2018.
The rights of use have also been adjusted to take account of accruals and deferrals, as well as finance leases.

Liabilities and shareholders' equity

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018 Published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10.	Financial liabilities measured at amortised cost	513,775	1,590	515,365
	a) due to banks	*107,815*		*107,815*
	b) due to customers	*323,900*	*1,590*	*325,490*
	c) securities issued	*82,060*		*82,060*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	9	819
20.	Financial liabilities held for trading	41,895		41,895
30.	Financial liabilities designated at fair value	4		4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800		67,800
40.	Hedging derivatives	7,221		7,221
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398		398
60.	Tax liabilities	2,433		2,433
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258		258
80.	Other liabilities	11,645	-4	11,641
90.	Employee termination indemnities	1,190		1,190
100.	Allowances for risks and charges	5,064		5,064
110.	Technical reserves	80,797		80,797
120.	Valuation reserves	-913		-913
125.	Valuation reserves pertaining to insurance companies	9		9
130.	Redeemable shares	-		-
140.	Equity instruments	4,103		4,103
150.	Reserves	13,006		13,006
160.	Share premium reserve	24,768		24,768
170.	Share capital	9,085		9,085
180.	Treasury shares (-)	-84		-84
190.	Minority interests (+/-)	407		407
200.	Net income (loss) (+/-)	4,050		4,050
Total liabilities and shareholders' equity		**787,721**	**1,595**	**789,316**

Lease payables, amounting to a total of 1,599 million euro, have been shown in the table above entitled "Reconciliation of lease liabilities". The caption Financial liabilities measured at amortised cost already included the Payables for finance leases of 4 million euro.

Impacts on Own Funds

The increase in RWAs resulting from the recognition of the total rights of use, weighted at 100%, results in an impact on the CET 1 of -8 bps.

Scope of consolidation and consolidation methods

Scope of consolidation

The Consolidated Interim Statement includes Intesa Sanpaolo and the companies that it directly and indirectly controls, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors different from that of the Parent Company and private equity investments. Similarly, 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.

It should be noted that Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A., Autostrade Lombarde S.p.A. and their subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

Compared to 31 December 2018, the scope of consolidation did not show significant changes.
The changes concerning the entities under common control – which do not have an impact at consolidated level – include the mergers by incorporation into the Parent Company of Intesa Sanpaolo Group Services, Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna, Cassa di Risparmio di Pistoia e della Lucchesia, Banca Apulia and Banca Prossima.

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 2018 Intesa Sanpaolo Group Annual Report, to which reference should therefore be made.
The financial statements of the Parent Company and of other companies used to prepare the Interim Statement as at 30 September 2019 refer to the same date.
In certain limited cases, for subsidiaries which are not material, the latest official figures are used.
Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up
using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of non-Eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

The main financial statement captions: changes due to the introduction of IFRS 16

The accounting standards adopted in preparation of this Consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group 2018 Annual Report, to which reference should be made for their full description, except for the amendments deriving from the mandatory application, from 1 January 2019, of the new IFRS 16 “Leases”. Details of the main captions updated are provided below.

Property and equipment

Classification criteria

Property and equipment include land, owner-occupied property, 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.
Finally, this caption also includes the rights of use acquired through leases and relating to the use of an item of property and equipment (for the lessee companies) and the assets leased under operating leases (for the lessor companies).

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.
According to IFRS 16, leases are accounted for on the basis of the right of use model, where, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for its right of use of the underlying asset during the lease term.
When the asset is made available to the lessee for use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

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 amount 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 value 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 amount 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.

With regard to the asset consisting of the right of use, recognised in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and subject to an impairment test if there are indicators of impairment.

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.

Intangible assets

Classification criteria

Intangible assets consist of goodwill and other intangible assets governed by IAS 38. They include the rights of use acquired under a lease and relating to the use of an intangible asset (for lessees) and assets leased under an operating lease (for lessors).

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, non-financial activities related to provision of services 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 and non-financial activities related to provision of services, 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);
- intangible assets linked to service concession arrangements for which, in accordance with IFRIC 12, in return for the infrastructure construction or upgrade services, the operator acquires the right to charge the users for the use of the infrastructure; Intangible assets of this type are recorded net of government grants received, as required by IAS 20, and amortised on a straight-line basis over the duration of the concession;
- 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.

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 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.
Lease payables are remeasured when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

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.

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.
If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.
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 fair value measurement of real estate 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;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are 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 and tax losses carried forward).

* * *

For all other captions not included herein see Part A “Accounting policies” of the Notes to the consolidated financial statements of the 2018 Annual Report, as there were no significant changes in this regard.

The Board of Directors

Milan, 5 November 2019

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

Pursuant to art. 154-bis, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports, Fabrizio Dabbene, hereby declares that the accounting information contained in this Interim Statement as at 30 September 2019 corresponds to corporate records, books and accounts.

Milan, 5 November 2019

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

Attachments

Reconciliation between published consolidated financial statements and consolidated financial statements pursuant to IFRS 16/restated

Reconciliation between the published consolidated balance sheet as at 31 December 2018 and the consolidated balance sheet as at 1 January 2019 (IFRS 16)

Reconciliation between the published consolidated income statement as at 30 September 2018 and the restated consolidated income statement as at 30 September 2018

Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated income statement

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and consolidated financial statements pursuant to IFRS 16/restated

Reconciliation between the published consolidated balance sheet as at 31 December 2018 and the consolidated balance sheet as at 1 January 2019 (IFRS 16)

(millions of euro)

Assets		31.12.2018 Published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10.	Cash and cash equivalents	10,350	-	10,350
20.	Financial assets measured at fair value through profit or loss	42,115	-	42,115
	a) financial assets held for trading	*38,806*	-	*38,806*
	b) financial assets designated at fair value	*208*	-	*208*
	c) other financial assets mandatorily measured at fair value	*3,101*	-	*3,101*
30.	Financial assets measured at fair value through other comprehensive income	60,469	-	60,469
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	-	149,546
40.	Financial assets measured at amortised cost	476,503	-	476,503
	a) due from banks	*69,307*	-	*69,307*
	b) loans to customers	*407,196*	-	*407,196*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	-	952
50.	Hedging derivatives	2,993	-	2,993
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	-	124
70.	Investments in associates and companies subject to joint control	943	-	943
80.	Technical insurance reserves reassured with third parties	20	-	20
90.	Property and equipment	7,372	1,607	8,979
100.	Intangible assets	9,077	-	9,077
	of which:			
	- goodwill	*4,163*	-	*4,163*
110.	Tax assets	17,253	-	17,253
	a) current	*3,320*	-	*3,320*
	b) deferred	*13,933*	-	*13,933*
120.	Non-current assets held for sale and discontinued operations	1,297	-	1,297
130.	Other assets	8,707	-12	8,695
Total assets		**787,721**	**1,595**	**789,316**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018 Published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10.	Financial liabilities measured at amortised cost	513,775	1,590	515,365
	a) due to banks	*107,815*	-	*107,815*
	b) due to customers	*323,900*	*1,590*	*325,490*
	c) securities issued	*82,060*	-	*82,060*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	*9*	*819*
20.	Financial liabilities held for trading	41,895	-	*41,895*
30.	Financial liabilities designated at fair value	4	-	*4*
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	-	*67,800*
40.	Hedging derivatives	7,221	-	*7,221*
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	-	*398*
60.	Tax liabilities	2,433	-	2,433
	a) current	*163*	-	*163*
	b) deferred	*2,270*	-	*2,270*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	-	258
80.	Other liabilities	11,645	-4	11,641
90.	Employee termination indemnities	1,190	-	1,190
100.	Allowances for risks and charges	5,064	-	5,064
	a) commitments and guarantees given	*510*	-	*510*
	b) post-employment benefits	*261*	-	*261*
	c) other allowances for risks and charges	*4,293*	-	*4,293*
110.	Technical reserves	80,797	-	80,797
120.	Valuation reserves	-913	-	-913
125.	Valuation reserves pertaining to insurance companies	9	-	9
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,006	-	13,006
160.	Share premium reserve	24,768	-	24,768
170.	Share capital	9,085	-	9,085
180.	Treasury shares (-)	-84	-	-84
190.	Minority interests (+/-)	407	-	407
200.	Net income (loss) (+/-)	4,050	-	4,050
Total liabilities and shareholders' equity		**787,721**	**1,595**	**789,316**

Reconciliation between the published consolidated income statement as at 30 September 2018 and the restated consolidated income statement as at 30 September 2018

(millions of euro)

		30.09.2018 Published	Effect of transition to IFRS 16	Change in the scope of consolidation (a)	Reclassification Deposit Protection Fund International Subsidiary Banks (b)	30.09.2018 Restated
10.	Interest and similar income	7,867	-	4	-	7,871
	of which: interest income calculated using the effective interest rate method	*7,778*	-	-	-	*7,778*
20.	Interest and similar expense	-2,287	-20	-76	-	-2,383
30.	**Interest margin**	**5,580**	**-20**	**-72**	**-**	**5,488**
40.	Fee and commission income	7,438	-	6	-	7,444
50.	Fee and commission expense	-1,745	-	-2	-	-1,747
60.	**Net fee and commission income**	**5,693**	**-**	**4**	**-**	**5,697**
70.	Dividend and similar income	82	-	-	-	82
80.	Profits (Losses) on trading	397	-	1	-	398
90.	Fair value adjustments in hedge accounting	-8	-	-	-	-8
100.	Profits (Losses) on disposal or repurchase of:	520	-	-	-	520
	a) financial assets measured at amortised cost	*33*	-	-	-	*33*
	b) financial assets measured at fair value through other comprehensive income	*449*	-	-	-	*449*
	c) financial liabilities	*38*	-	-	-	*38*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	308	-	-	-	308
	a) financial assets and liabilities designated at fair value	*18*	-	-	-	*18*
	b) other financial assets mandatorily measured at fair value	*290*	-	-	-	*290*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	2,675	-	-	-	2,675
120.	**Net interest and other banking income**	**15,247**	**-20**	**-67**	**-**	**15,160**
130.	Net losses/recoveries for credit risks associated with:	-1,831	-	-	-	-1,831
	a) financial assets measured at amortised cost	*-1,831*	-	-	-	*-1,831*
	b) financial assets measured at fair value through other comprehensive income	-	-	-	-	-
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-9	-	-	-	-9
140.	Profits (Losses) on changes in contracts without derecognition	-4	-	-	-	-4
150.	**Net income from banking activities**	**13,403**	**-20**	**-67**	**-**	**13,316**
160.	Net insurance premiums	6,484	-	-	-	6,484
170.	Other net insurance income (expense)	-8,044	-	-	-	-8,044
180.	**Net income from banking and insurance activities**	**11,843**	**-20**	**-67**	**-**	**11,756**
190.	Administrative expenses:	-7,377	173	-33	-34	-7,271
	a) personnel expenses	*-4,355*	-	*21*	-	*-4,334*
	b) other administrative expenses	*-3,022*	*173*	*-54*	*-34*	*-2,937*
200.	Net provisions for risks and charges	-57	-	-	-	-57
	a) commitments and guarantees given	*57*	-	-	-	*57*
	b) other net provisions	*-114*	-	-	-	*-114*
210.	Net adjustments to / recoveries on property and equipment	-269	-160	-	-	-429
220.	Net adjustments to / recoveries on intangible assets	-417	-	-13	-	-430
230.	Other operating expenses (income)	571	-	65	34	670
240.	**Operating expenses**	**-7,549**	**13**	**19**	**-**	**-7,517**
250.	Profits (Losses) on investments in associates and companies subject to joint control	23	-	-	-	23
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-	-
270.	Goodwill impairment	-	-	-	-	-
280.	Profits (Losses) on disposal of investments	-3	-	-	-	-3
290.	**Income (Loss) before tax from continuing operations**	**4,314**	**-7**	**-48**	**-**	**4,259**
300.	Taxes on income from continuing operations	-1,280	2	12	-	-1,266
310.	**Income (Loss) after tax from continuing operations**	**3,034**	**-5**	**-36**	**-**	**2,993**
320.	Income (Loss) after tax from discontinued operations	-	-	-	-	-
330.	**Net income (loss)**	**3,034**	**-5**	**-36**	**-**	**2,993**
340.	Minority interests	-22	5	36	-	19
350.	**Parent Company's net income (loss)**	**3,012**	**-**	**-**	**-**	**3,012**

(a) The restatement refers to the income statement figures of the first three months of 2018 of the Morval Vonwiiller Holding SA. Group companies and of the nine months of 2018 of Autostrade Lombarde and of the Intrum transaction.

(b) The restatement refers to the Deposit Protecion Funds of the international subsidiary banks previously recognised under operating expenses.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		30.09.2019	01.01.2019 IFRS16	Changes amount	%
10.	Cash and cash equivalents	6,923	10,350	-3,427	-33.1
20.	Financial assets measured at fair value through profit or loss	55,286	42,115	13,171	31.3
	a) financial assets held for trading	*51,596*	*38,806*	*12,790*	*33.0*
	b) financial assets designated at fair value	*195*	*208*	*-13*	*-6.3*
	c) other financial assets mandatorily measured at fair value	*3,495*	*3,101*	*394*	*12.7*
30.	Financial assets measured at fair value through other comprehensive income	75,218	60,469	14,749	24.4
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	167,034	149,546	17,488	11.7
40.	Financial assets measured at amortised cost	491,010	476,503	14,507	3.0
	a) due from banks	*73,443*	*69,307*	*4,136*	*6.0*
	b) loans to customers	*417,567*	*407,196*	*10,371*	*2.5*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	570	952	-382	-40.1
50.	Hedging derivatives	3,687	2,993	694	23.2
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,741	124	2,617	
70.	Investments in associates and companies subject to joint control	1,113	943	170	18.0
80.	Technical insurance reserves reassured with third parties	25	20	5	25.0
90.	Property and equipment	8,752	8,979	-227	-2.5
100.	Intangible assets	9,082	9,077	5	0.1
	of which:				
	- goodwill	*4,163*	*4,163*	*-*	*-*
110.	Tax assets	15,555	17,253	-1,698	-9.8
	a) current	*1,831*	*3,320*	*-1,489*	*-44.8*
	b) deferred	*13,724*	*13,933*	*-209*	*-1.5*
120.	Non-current assets held for sale and discontinued operations	2,554	1,297	1,257	96.9
130.	Other assets	9,168	8,695	473	5.4
Total assets		**848,718**	**789,316**	**59,402**	**7.5**

(millions of euro)

Liabilities and Shareholders' Equity		30.09.2019	01.01.2019 IFRS16	Changes amount	%
10.	Financial liabilities measured at amortised cost	536,001	515,365	20,636	4.0
	a) due to banks	*119,365*	*107,815*	*11,550*	*10.7*
	b) due to customers	*330,962*	*325,490*	*5,472*	*1.7*
	c) securities issued	*85,674*	*82,060*	*3,614*	*4.4*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	888	819	69	8.4
20.	Financial liabilities held for trading	53,938	41,895	12,043	28.7
30.	Financial liabilities designated at fair value	4	4	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	74,405	67,800	6,605	9.7
40.	Hedging derivatives	12,882	7,221	5,661	78.4
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	767	398	369	92.7
60.	Tax liabilities	2,561	2,433	128	5.3
	a) current	*422*	*163*	*259*	
	b) deferred	*2,139*	*2,270*	*-131*	*-5.8*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	256	258	-2	-0.8
80.	Other liabilities	17,064	11,641	5,423	46.6
90.	Employee termination indemnities	1,214	1,190	24	2.0
100.	Allowances for risks and charges	3,950	5,064	-1,114	-22.0
	a) commitments and guarantees given	*423*	*510*	*-87*	*-17.1*
	b) post-employment benefits	*238*	*261*	*-23*	*-8.8*
	c) other allowances for risks and charges	*3,289*	*4,293*	*-1,004*	*-23.4*
110.	Technical reserves	89,237	80,797	8,440	10.4
120.	Valuation reserves	-194	-913	-719	-78.8
125.	Valuation reserves pertaining to insurance companies	727	9	718	
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,233	13,006	227	1.7
160.	Share premium reserve	25,074	24,768	306	1.2
170.	Share capital	9,086	9,085	1	0.0
180.	Treasury shares (-)	-110	-84	26	31.0
190.	Minority interests (+/-)	322	407	-85	-20.9
200.	Net income (loss) (+/-)	3,310	4,050	-740	-18.3
Total liabilities and shareholders' equity		**848,718**	**789,316**	**59,402**	**7.5**

Restated consolidated income statement

(millions of euro)

		30.09.2019	30.09.2018 Restated	Changes amount	%
10.	Interest and similar income	7,715	7,871	-156	-2.0
	of which: interest income calculated using the effective interest rate method	*7,790*	*7,778*	*12*	*0.2*
20.	Interest and similar expense	-2,518	-2,383	135	5.7
30.	**Interest margin**	**5,197**	**5,488**	**-291**	**-5.3**
40.	Fee and commission income	7,326	7,444	-118	-1.6
50.	Fee and commission expense	-1,810	-1,747	63	3.6
60.	**Net fee and commission income**	**5,516**	**5,697**	**-181**	**-3.2**
70.	Dividend and similar income	107	82	25	30.5
80.	Profits (Losses) on trading	420	398	22	5.5
90.	Fair value adjustments in hedge accounting	-65	-8	57	
100.	Profits (Losses) on disposal or repurchase of:	1,135	520	615	
	a) financial assets measured at amortised cost	*64*	*33*	*31*	*93.9*
	b) financial assets measured at fair value through other comprehensive income	*1,028*	*449*	*579*	
	c) financial liabilities	*43*	*38*	*5*	*13.2*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	55	308	-253	-82.1
	a) financial assets and liabilities designated at fair value	*-103*	*18*	*-121*	
	b) other financial assets mandatorily measured at fair value	*158*	*290*	*-132*	*-45.5*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,040	2,675	365	13.6
120.	**Net interest and other banking income**	**15,405**	**15,160**	**245**	**1.6**
130.	Net losses/recoveries for credit risks associated with:	-1,481	-1,831	-350	-19.1
	a) financial assets measured at amortised cost	*-1,474*	*-1,831*	*-357*	*-19.5*
	b) financial assets measured at fair value through other comprehensive income	*-7*	*-*	*7*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-9	-1	-11.1
140.	Profits (Losses) on changes in contracts without derecognition	-8	-4	4	
150.	**Net income from banking activities**	**13,908**	**13,316**	**592**	**4.4**
160.	Net insurance premiums	7,335	6,484	851	13.1
170.	Other net insurance income (expense)	-9,282	-8,044	1,238	15.4
180.	**Net income from banking and insurance activities**	**11,961**	**11,756**	**205**	**1.7**
190.	Administrative expenses:	-7,171	-7,271	-100	-1.4
	a) personnel expenses	*-4,292*	*-4,334*	*-42*	*-1.0*
	b) other administrative expenses	*-2,879*	*-2,937*	*-58*	*-2.0*
200.	Net provisions for risks and charges	23	-57	80	
	a) commitments and guarantees given	*69*	*57*	*12*	*21.1*
	b) other net provisions	*-46*	*-114*	*-68*	*-59.6*
210.	Net adjustments to / recoveries on property and equipment	-389	-429	-40	-9.3
220.	Net adjustments to / recoveries on intangible assets	-493	-430	63	14.7
230.	Other operating expenses (income)	628	670	-42	-6.3
240.	**Operating expenses**	**-7,402**	**-7,517**	**-115**	**-1.5**
250.	Profits (Losses) on investments in associates and companies subject to joint control	43	23	20	87.0
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	3	-3	6	
290.	**Income (Loss) before tax from continuing operations**	**4,605**	**4,259**	**346**	**8.1**
300.	Taxes on income from continuing operations	-1,302	-1,266	36	2.8
310.	**Income (Loss) after tax from continuing operations**	**3,303**	**2,993**	**310**	**10.4**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**3,303**	**2,993**	**310**	**10.4**
340.	Minority interests	7	19	-12	-63.2
350.	**Parent Company's net income (loss)**	**3,310**	**3,012**	**298**	**9.9**

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Assets		30.09.2019	01.01.2019 IFRS16
Due from banks		**71,958**	**68,723**
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	71,952	68,721
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	6	2
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers		**395,193**	**393,550**
Loans to customers measured at amortised cost		***394,289***	***392,945***
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	388,988	388,448
- Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-665	-654
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,966	5,151
Loans to customers at fair value through other comprehensive income and through profit or loss		***904***	***605***
Caption 20a (partial)	Financial assets held for trading - Loans to customers	31	75
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	707	502
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	166	28
Financial assets measured at amortised cost which do not constitute loans		**24,104**	**14,183**
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	1,491	586
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	22,613	13,597
Financial assets at fair value through profit or loss		**54,542**	**41,536**
Caption 20a (partial)	Financial assets held for trading	51,565	38,731
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	195	208
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	2,782	2,597
Financial assets at fair value through other comprehensive income		**75,052**	**60,441**
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	75,052	60,441
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		**167,034**	**149,546**
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	167,034	149,546
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**570**	**952**
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	570	952
Investments in associates and companies subject to joint control		**1,113**	**943**
Caption 70	Investments in associates and companies subject to joint control	1,113	943
Property, equipment and intangible assets		**16,889**	**17,081**
Assets owned		***15,347***	***15,452***
Caption 90 (partial)	Property and equipment	7,210	7,350
Caption 100	Intangible assets	9,082	9,077
- Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-945	-975
Rights of use acquired under leases		***1,542***	***1,629***
Caption 90 (partial)	Property and equipment	1,542	1,629
Tax assets		**15,555**	**17,253**
Caption 110	Tax assets	15,555	17,253
Non-current assets held for sale and discontinued operations		**2,554**	**1,297**
Caption 120	Non-current assets held for sale and discontinued operations	2,554	1,297
Other assets		**24,154**	**23,811**
Caption 10	Cash and cash equivalents	6,923	10,350
+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	665	654
Caption 50	Hedging derivatives	3,687	2,993
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	2,741	124
Caption 80	Technical insurance reserves reassured with third parties	25	20
+Caption 100 (partial)	Intangible assets (concession rights - intangible component)	945	975
Caption 130	Other assets	9,168	8,695
Total Assets		**848,718**	**789,316**

(millions of euro)

Liabilities		30.09.2019	01.01.2019 IFRS16
Due to banks at amortised cost		**119,359**	**107,815**
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	119,365	107,815
- Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-6	-
Due to customers at amortised cost and securities issued		**415,128**	**405,960**
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	330,962	325,490
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	85,674	82,060
- Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,508	-1,590
Financial liabilities held for trading		**53,938**	**41,895**
Caption 20	Financial liabilities held for trading	53,938	41,895
Financial liabilities designated at fair value		**4**	**4**
Caption 30	Financial liabilities designated at fair value	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**879**	**810**
Caption 15	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	888	819
- Caption 15 (partial)	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)	-9	-9
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39		**74,405**	**67,800**
Caption 35	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	74,405	67,800
Tax liabilities		**2,561**	**2,433**
Caption 60	Tax liabilities	2,561	2,433
Liabilities associated with non-current assets held for sale and discontinued operations		**256**	**258**
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	256	258
Other liabilities		**32,236**	**20,859**
Caption 40	Hedging derivatives	12,882	7,221
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	767	398
Caption 80	Other liabilities	17,064	11,641
Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	6	-
Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,508	1,590
Caption 15 (partial)	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)	9	9
Technical reserves		**89,237**	**80,797**
Caption 110	Technical reserves	89,237	80,797
Allowances for risks and charges		**5,164**	**6,254**
Caption 90	Employee termination indemnities	1,214	1,190
Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	423	510
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	238	261
Caption 100 c)	Allowances for risks and charges - Other allowances for risks and charges	3,289	4,293
Share capital		**9,086**	**9,085**
Caption 170	Share capital	9,086	9,085
Reserves		**38,197**	**37,690**
Caption 130	Redeemable shares	-	-
Caption 150	Reserves	13,233	13,006
Caption 160	Share premium reserve	25,074	24,768
- Caption 180	Treasury shares	-110	-84
Valuation reserves		**-194**	**-913**
Caption 120	Valuation reserves	-194	-913
Valuation reserves pertaining to insurance companies		**727**	**9**
Caption 125	Valuation reserves pertaining to insurance companies	727	9
Equity instruments		**4,103**	**4,103**
Caption 140	Equity instruments	4,103	4,103
Minority interests		**322**	**407**
Caption 190	Minority interests	322	407
Net income (loss)		**3,310**	**4,050**
Caption 200	Net income (loss) (+/-)	3,310	4,050
Total Liabilities and Shareholders' Equity		**848,718**	**789,316**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions		30.09.2019	30.09.2018 Restated
Net interest income		**5,258**	**5,535**
Caption 30	Interest margin	5,197	5,488
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	73	87
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	14	3
+ Caption 80 (partial)	Hedging swap differentials	-64	-79
- Caption 30 (partial)	Charges related to the disposal of loans	-	14
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-21	-32
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-1	-2
- Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	-27	-33
- Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	87	89
Net fee and commission income		**5,865**	**6,001**
Caption 60	Net fee and commission income	5,516	5,697
- Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	211	266
- Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	3	3
- Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	165	71
+ Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	5	-
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-35	-36
Income from insurance business		**876**	**846**
Caption 160	Net insurance premiums	7,335	6,484
Caption 170	Other net insurance income (expense)	-9,282	-8,044
+ Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	-6	-7
+ Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	-211	-266
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,040	2,675
+ Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	27	33
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-25	-29
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	-2	-
Profits (Losses) on financial assets and liabilities designated at fair value		**1,569**	**1,265**
Caption 80	Profits (Losses) on trading	420	398
Caption 90	Fair value adjustments in hedge accounting	-65	-8
Caption 110 a)	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	-103	18
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	158	290
Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	1,028	449
Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	43	38
+ Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	-165	-71
+ 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)	107	70
+ 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 associated with profits (losses) on trading	101	-
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-14	-3
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	25	29
- Caption 80 (partial)	Hedging swap differentials	64	79
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-	-
- Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)	-	-6
- Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	-17	-
- Caption 110 b) (partial)	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)	-13	-8
+ Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	-	-10
Other operating income (expenses)		**14**	**44**
Caption 70	Dividend and similar income	107	82
Caption 230	Other operating expenses (income)	628	670
+ Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	-87	-89
+ Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	-3	-3
- 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)	-107	-70
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-13	-7
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-550	-555
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	3
- Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-9
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	39	22
Operating income		**13,582**	**13,691**

(millions of euro)

Captions		30.09.2019	30.09.2018 Restated
Personnel expenses		**-4,226**	**-4,294**
Caption 190 a)	Personnel expenses	-4,292	-4,334
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	44	8
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	21	32
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	1	-
Other administrative expenses		**-1,759**	**-1,866**
Caption 190 b)	Other administrative expenses	-2,879	-2,937
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	26	23
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	497	450
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	35	36
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	550	555
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	12	7
Adjustments to property, equipment and intangible assets		**-773**	**-770**
Caption 210	Net adjustments to / recoveries on property and equipment	-389	-429
Caption 220	Net adjustments to / recoveries on intangible assets	-493	-430
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	2	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	14	13
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	13	21
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	32	22
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-	8
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	1	1
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	47	24
Operating costs		**-6,758**	**-6,930**
Operating margin		**6,824**	**6,761**
Net adjustments to loans		**-1,396**	**-1,696**
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-46	8
+ 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)	9	5
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-1,455	-1,839
+ 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)	-9	14
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-	1
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	14	-
Caption 140	Profits/losses from changes in contracts without derecognition	-8	-4
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	69	57
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	30	62
Other net provisions and net impairment losses on other assets		**-86**	**-111**
+ 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)	-10	-6
+ 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 measured at fair value through other comprehensive income - Debt securities	-7	-1
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-8	-9
Caption 260	Valuation differences on property, equipment and intangible assets measured at fair value	-	-
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-46	-114
+ Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	12	-
- Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	6	7
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	1	2
- Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	3	-
- 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)	-24	12
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Recoveries on tax litigation to other income (expenses))	-9	-
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-	-8
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-1	-1
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-3
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-3	-

(millions of euro)

Captions		30.09.2019	30.09.2018 Restated
Other income (expenses)		**5**	**-1**
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	101	6
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	-	14
- 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 30 (partial)	Charges related to the disposal of loans	-	-14
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	43	23
Caption 280	Profits (Losses) on disposal of investments	3	-3
- 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 associated with profits (losses) on trading	-101	-
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Recoveries on tax litigation to other income (expenses)	9	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	-14	-13
+ Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	9
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-39	-22
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	3	-
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Charges for integration - IFRS 5 measurement of SEC Servizi)	-	8
- 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)		**5,347**	**4,953**
Taxes on income		**-1,521**	**-1,477**
Caption 300	Taxes on income from continuing operations	-1,302	-1,266
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-	-
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-26	-28
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-47	-50
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-146	-133
Charges (net of tax) for integration and exit incentives		**-79**	**-66**
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	-14	-
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-44	-8
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-26	-23
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	24	-12
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	-13	-21
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-32	-22
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Charges for integration - IFRS 5 measurement of SEC Servizi)	-	-8
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	26	28
Effect of purchase price allocation (net of tax)		**-106**	**-108**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-73	-87
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)		6
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-30	-62
- 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 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	-3	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-47	-24
+ 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)	47	50
Levies and other charges concerning the banking industry (net of tax)		**-338**	**-309**
+ Caption 110 b) (partial)	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)	13	8
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-497	-450
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	146	133
Impairment (net of tax) of goodwill and other intangible assets		**-**	**-**
Caption 270	Goodwill impairment	-	-
Minority interests		**7**	**19**
Caption 340	Minority interests	7	19
Net income (loss)		**3,310**	**3,012**

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).

AVA (Additional Valuation Adjustment)
Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term ‘positions’ refers solely to financial instruments and commodities.

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 standards 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-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.

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.

CCF - Credit Conversion Factor
The ratio of the currently undrawn amount of a commitment that could be drawn and that would therefore be outstanding at default to the currently undrawn amount of the commitment, the extent of the commitment being determined by the advised limit, unless the unadvised limit is higher.

CCP (Central Counterparty Clearing House)
A central counterparty is an institution interposed in securities trades between the two contracting parties, protecting the latter against default risk and guaranteeing the successful execution of the transaction. The central counterparty protects itself against its own risk by taking securities or cash collateral (margins) commensurate with the value and risk of the contracts guaranteed. Central counterparty services can be provided not only in the markets that expressly provide for them but also in respect of over-the-counter trading outside regulated markets.

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
securitisationsDebt 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 normally lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which, under normal conditions, 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.

CRM – Credit Risk Mitigation
Techniques used by institutions to reduce the credit risk associated with their exposures.

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.

CSA (Credit Support Annex)
A document through which counterparties trading in an over-the-counter derivative instrument establish the terms of contribution and transfer of the underlying guarantees to mitigate credit risk in the event of in-the-money position of the instrument. This document, although not mandatory for the transaction, is one of the four components that contribute to the establishment of the Master Agreement according to the standards established by the International Swaps and Derivatives Association (ISDA).

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.

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 on- or off-balance sheet positions, 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.

ECAI – External Credit Assessment Institution
An external credit assessment institution.

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 (ECL)
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 or 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.

GMSLA
Global Master Securities Lending Agreement: these are margin agreements used to mitigate counterparty risk in securities lending transactions

GMRA
Global Master Repurchase Agreement: these are margin agreements used to mitigate counterparty risk in repurchase agreement transactions

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 funds
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).

IMA (Internal Models Approach)
Approach for calculating the capital requirement for market risk using internal models.

IMM (Internal Model Method)
Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

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:
a) 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
b) 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 cash flow discounting rate 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”.

Liquidity Coverage Ratio (LCR)
It aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that may be converted into cash to meet its liquidity needs within a period of 30 days under conditions of severe stress. The liquidity coverage ratio is equal to the ratio of liquidity reserves to net outflows of liquidity over a stress period of 30 calendar days.

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 represents the percentage of loans that are estimated to be irrecoverable in the event of default by the debtor.

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.

Net Stable Funding Ratio (NSFR).
It 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. Net stable funding requirement is equal to the ratio of the stable funding available to the entity to the stable funding required by the entity and is expressed as a percentage.

Non-performing
Term generally referring to loans for which payments are overdue.

Covered bond
See "Covered Bond".

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 loss
It is calculated as the product of the Probability of Default (PD) and Loss Given Default (LGD) multiplied by the exposure value (EAD). It represents the ratio of the amount expected to be lost on the exposure, over a time horizon of one year, as a result of a potential default by the counterparty and the amount of the exposure at the time of default.

Lifetime expected loss
Expected credit loss that results 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.

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

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
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 and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk 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 10-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.

RTS (Regulation Technical Standards)
Regulatory technical standards

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
A Special Purpose Entity or Special Purpose Vehicle is a company 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 financing 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 capital 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 (increase or decrease) in volatility.

Vega 01
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, 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, coming from the art collections of Fondazione Cariplo and Intesa Sanpaolo, along with a collection representative of twentieth-century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza exhibits works of eighteenth-century Veneto art and a collection of Attic and Magna Graecia pottery. Moreover, one of the most important collections of Russian icons in the West is safeguarded here.

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:

ANGELO INGANNI
(Brescia, 1807 - 1880)
Piazza della Scala under the snow, seen from the Gallery 1874
oil on canvas, 65,5 x 55,5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

Angelo Inganni's vedute are fine works offering a valuable insight into the urban transformations that Milan experienced during the 19th century. In *Piazza della Scala under the snow, seen from the Gallery*, the artist depicts Teatro alla Scala before the square it faces was opened, which involved the demolition of a housing block next to the Palazzo Marino, and subsequently led to the construction of the Galleria Vittorio Emanuele II and the erection of the Leonardo da Vinci monument.

Despite the structural balance of the work, the resulting image - created with free and vibrant brushstrokes with no concern for defined outlines - seems somewhat random, almost like a snapshot of the path running between the snowy square and the Galleria.

The work is part of the permanent collection at the **Gallerie d'Italia**, Intesa Sanpaolo's museum complex located in **Piazza Scala, Milan**. The exhibition dedicated principally to 19th century art opens with Neoclassical works and continues through to the turn of the 20th century, with a century's worth of Italian paintings depicting historical events, battles of the Risorgimento (the Italian Unification), vedute and landscapes, as well as genre paintings and masterpieces of Symbolism.