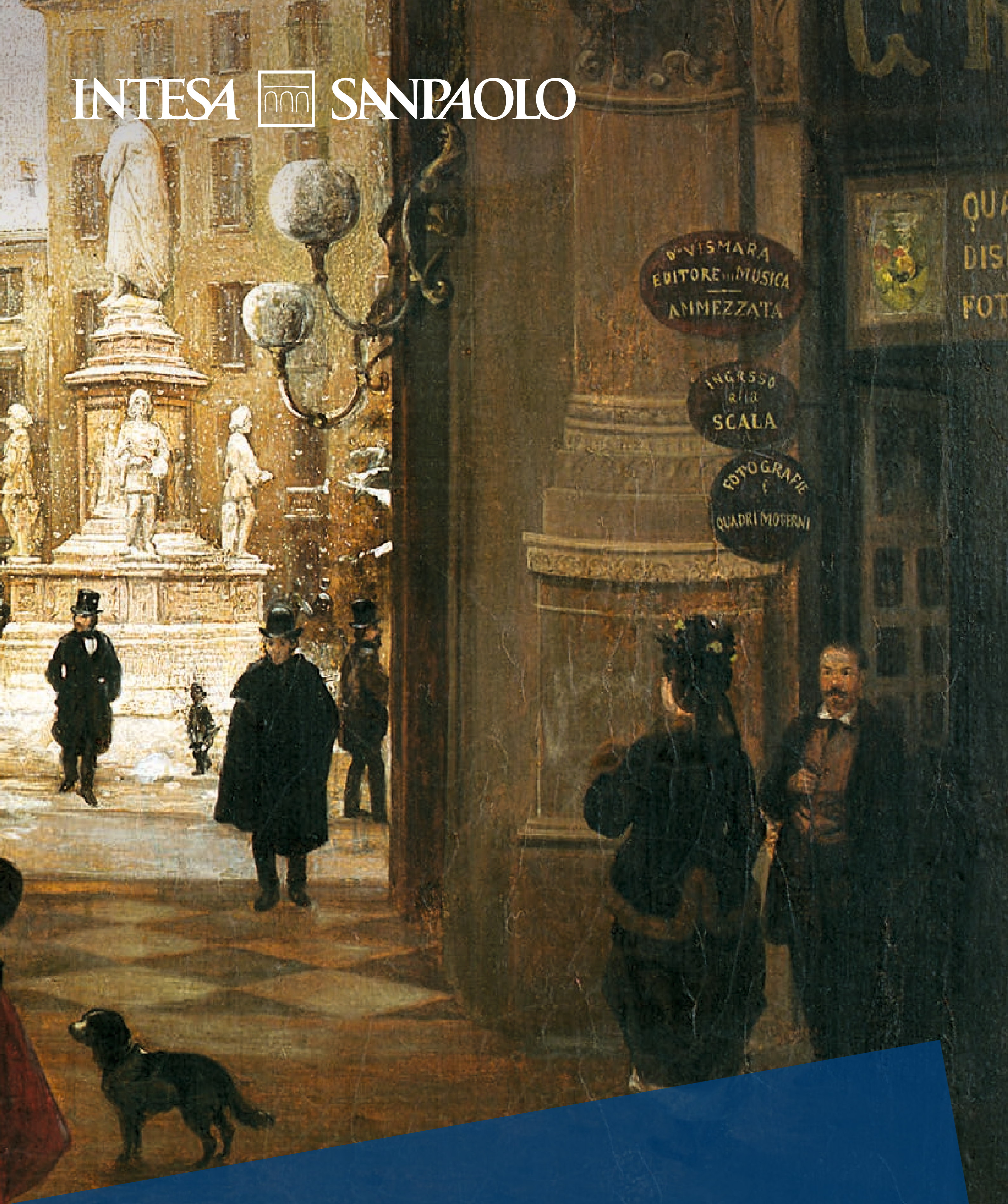

Half-yearly report as at 30 June 2019

This is an English translation of the original Italian document "Relazione semestrale al 30 giugno 2019". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.

This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.

All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Half-yearly report as at 30 June 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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The Intesa Sanpaolo Group: presence in Italy

Banks

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
1,101	Fideuram	93
	Mediocredito Italiano	4
	Banca IMI	1
	Banca 5	1

NORTH EAST

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

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
773	Fideuram	41
	Mediocredito Italiano	2
	Banca IMI	1

SOUTH

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

ISLANDS

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

Figures as at 30 June 2019

Product Companies

INTESA SANPAOLO VITA | INTESA SANPAOLO ASSICURA | FIDEURAM VITA

Bancassurance and Pension Funds

MEDIOCREDITO ITALIANO

Industrial credit, Factoring and Leasing

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

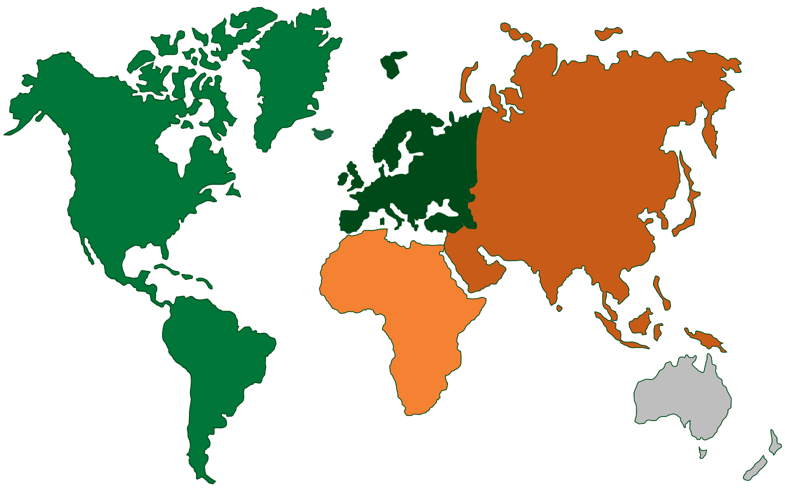
Representative Offices
Sydney

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	34
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	53
Croatia	Privredna Banka Zagreb	191
Czech Republic	VUB Banka	1
Hungary	CIB Bank	65
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	32
Serbia	Banca Intesa Beograd	154
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 Banking	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	176

Figures as at 30 June 2019

(1) Institutional 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

Half-yearly report on operations

Introduction

The Half-yearly Report as at 30 June 2019 is made up of the Half-yearly report on operations and the Half-yearly condensed consolidated financial statements including the financial statements and related explanatory notes.
As illustrated in detail in the chapter “Accounting Policies”, the Half-yearly condensed consolidated financial statements have been prepared in compliance with art. 154-ter of Legislative Decree 58 of 24 February 1998 and in application of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as provided for by European Regulation 1606 of 19 July 2002.
In particular, the Half-yearly condensed consolidated financial statements as at 30 June 2019, subject to limited review, have been drawn up in compliance with IAS 34 requirements, which regulate interim reports. Starting from 1 January 2019, these financial statements include the first-time adoption of IFRS 16 – Leases.
To support the comments on results for the period, the Explanatory notes to the Half-yearly condensed consolidated financial statements also present and illustrate reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, envisaged by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments.
The Half-yearly report on operations and the Half-yearly condensed consolidated financial statements contain financial information – for example, figures on quarterly development, and other alternative performance measures – not directly attributable to the financial statements.
Please note that the website of Intesa Sanpaolo, at www.group.intesasanpaolo.com, contains the press releases issued during the period together with other financial documents.

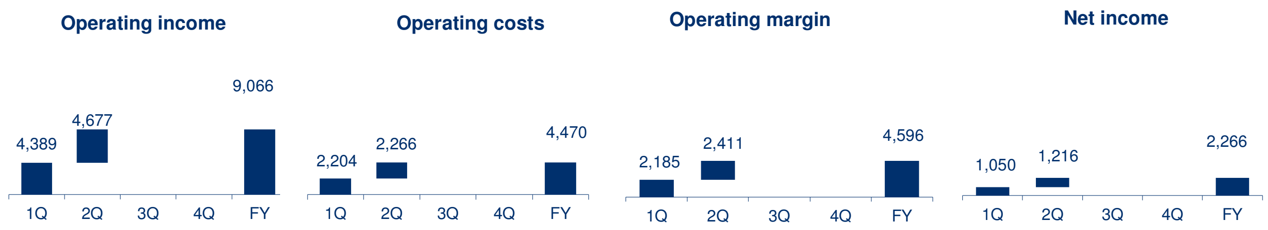
Overview of the first half 2019

Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)	30.06.2019	30.06.2018	Changes amount	Changes %
Net interest income	3,517	3,691	-174	-4.7
Net fee and commission income	3,875	4,042	-167	-4.1
Income from insurance business	575	575	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,090	1,057	33	3.1
Operating income	9,066	9,420	-354	-3.8
Operating costs	-4,470	-4,619	-149	-3.2
Operating margin	4,596	4,801	-205	-4.3
Net adjustments to loans	-923	-1,177	-254	-21.6
Net income (loss)	2,266	2,179	87	4.0

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

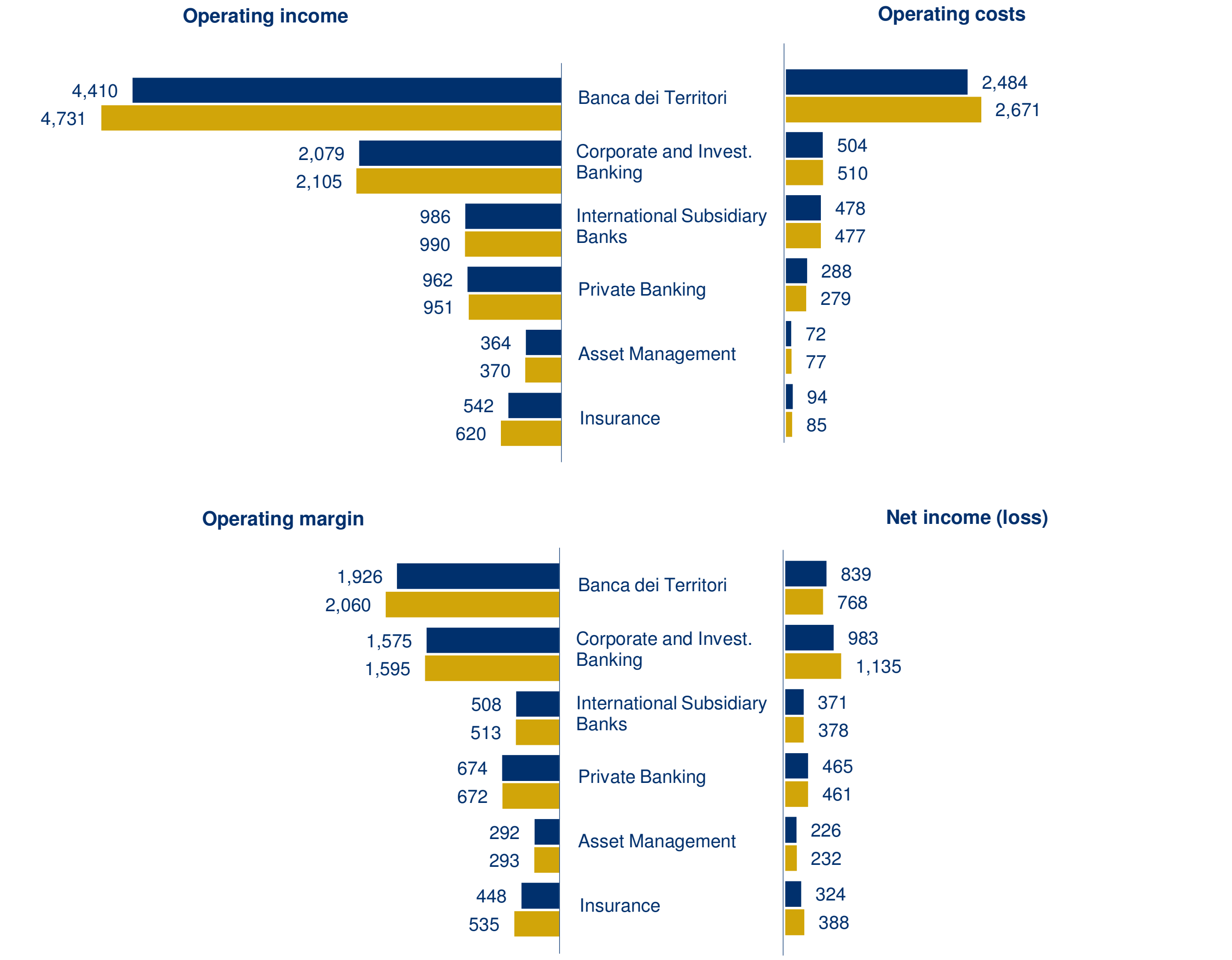
Quarterly development of main consolidated income statement figures (millions of euro)



30.06.2019

30.06.2018

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)	30.06.2019	01.01.2019	**Changes** amount	**Changes** %
Financial assets	139,085	116,160	22,925	19.7
Financial assets pertaining to insurance companies measured pursuant to IAS 39	159,739	150,498	9,241	6.1
Loans to customers	394,253	393,550	703	0.2
Total assets	828,365	789,316	39,049	4.9
Direct deposits from banking business	423,158	415,082	8,076	1.9
Direct deposits from insurance business and technical reserves	157,529	149,358	8,171	5.5
Indirect deposits:	515,206	495,809	19,397	3.9
of which: Assets under management	344,097	330,593	*13,504*	*4.1*
Shareholders' equity	53,535	54,024	-489	-0.9

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

	Loans to customers 30.06.2019	**Loans to customers** 01.01.2019	**Direct deposits from banking business** 30.06.2019	**Direct deposits from banking business** 01.01.2019
Banca dei Territori	207,661	211,491	195,425	191,588
Corporate and Invest. Banking	112,929	110,642	102,578	102,449
International Subsidiary Banks	32,713	31,538	41,635	39,384
Private Banking	9,620	9,530	35,486	32,103
Asset Management	258	228	10	6
Insurance	-	-	-	-

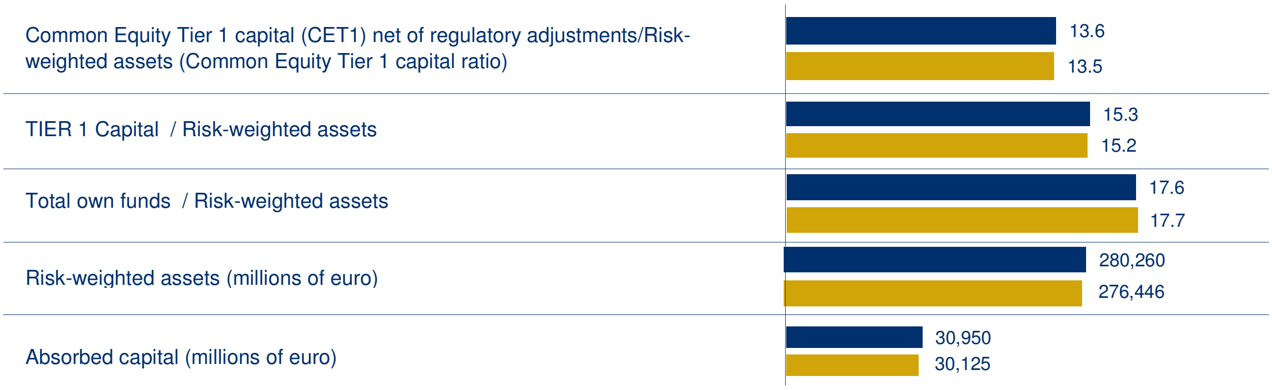
(*) Excluding Corporate Centre

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

30.06.2019
01.01.2019

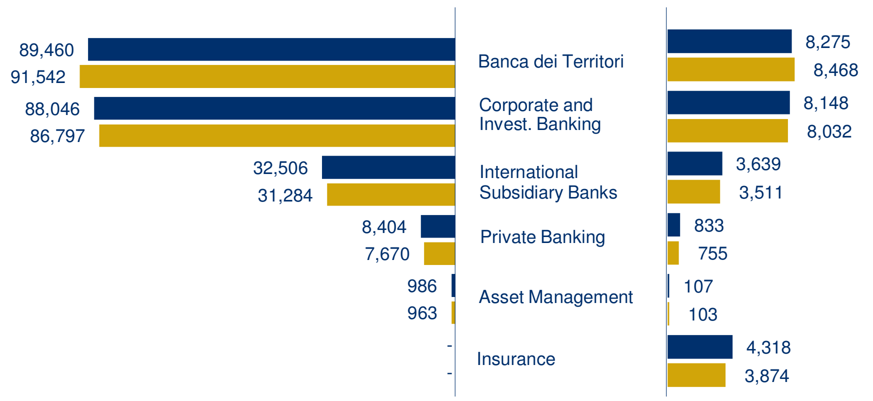
Alternative performance measures and other measures

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 (%)

	30.06.2019	30.06.2018
Cost / Income	49.3	49.0
Net income / Shareholders' equity (ROE) [(a)]	9.6	9.8
Net income / Total assets (ROA) [(b)]	0.5	0.5

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

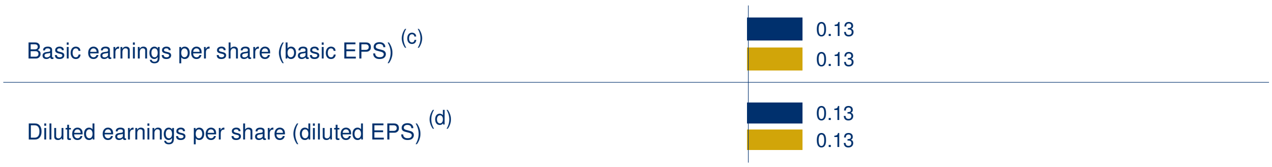
(a) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period. The figure for the period has been annualised.

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

30.06.2019

30.06.2018

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	30.06.2019	31.12.2018	Changes amount
Number of employees (e)	**90,888**	**92,241**	**-1,353**
Italy	67,237	68,435	-1,198
Abroad	23,651	23,806	-155
Number of financial advisors	**5,060**	**5,150**	**-90**
Number of branches (f)	**4,967**	**5,302**	**-335**
Italy	3,901	4,217	-316
Abroad	1,066	1,085	-19

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.

30.06.2019

30.06.2018 (Income statement figures)
01.01.2019 (Balance sheet figures)

Executive summary

The macroeconomic context

The economy and the financial and currency markets

The year 2019 began with substantial stagnation in global trade, due to punitive duties imposed by the United States on a wide range of its imports from China, the countermeasures adopted by the Chinese government and the risk of a further escalation in the trade wars. The repercussions affected the rest of Asia and Europe. Global manufacturing continued to slow down for the entire first half. The deadline for Brexit was postponed to 31 October 2019, as a result of substantial paralysis of the UK political system to handle the need to choose from among realisable options.

The US economy continued to show relatively robust growth, with a gradual acceleration of the year-on-year increase in GDP up to a peak of 3.1% in the first quarter. There was a slowdown in the second quarter, which had been signalled by a weakening in economic surveys, specifically for industrial companies, largely due to negative contributions from the foreign channel and inventories. Domestic demand is being driven by the last positive effects of the tax reform, highly favourable financial conditions and a sound labour market. Unemployment fell to below 4%, but signs of wage pressure were still confined to the more highly qualified professions. Inflation remained below 2%, which enabled the Federal Reserve to open up to precautionary monetary stimulus measures. Though continuing to reduce the reinvestment of principal payments at maturity of its securities portfolio, the central bank stopped increasing the official rates and, right at the end of the half year, announced a possible preventative cut, as insurance against the risks of slowdown in production activities.

Rather contrasting growth trends were seen in the Eurozone. In the first quarter the GDP growth accelerated on a quarterly basis, to 0.4%, while annual growth stabilised at 1.2%. Nonetheless, that trend partially reflects transitional factors that boosted construction in the winter months, to the detriment of the second quarter. Economic surveys signalled that the slowdown continued in the second quarter, still driven by the weakness in the manufacturing sector, even though with a few feeble signs of stabilisation. The positive trend in the labour market, characterised by continued robust growth in employment despite the slowdown in the GDP, resulted in a decrease in unemployment, which dropped to 7.5% in May. Inflation decreased, amounting to 1.3% in June, significantly far from the targets of the European Central Bank. The latter reacted to the slowdown in the economy by announcing a new cycle of targeted longer-term refinancing operations (TLTRO III), and extending the commitment to keep official rates stable to the entire first half of 2020. At the end of the half year, it suggested the possibility of new expansionary measures, also including cuts to official rates and the reopening of the APP (Asset Purchase Programme).

Given the absolute stability of short-term rates at negative levels, the trend in medium and long-term rates reflected the growing expectations of new monetary easing. The 5 and 10-year swap rates dropped to -0.17% and 0.24%, respectively, decreasing by 42 basis points and 63 basis points on December 2018. Government bond yields also decreased significantly. Nonetheless, the spread of 10-year BTP on German securities remained very high, fluctuating between 240 and 280 basis points.

The Italian economy remained stuck in a phase of substantial stagnation. In the first quarter, the year-on-year growth of the GDP came to 0.1%: the decrease in inventories offset almost all the growth of final domestic demand and net exports. Industrial production decreased: in May it was 0.7% lower than one year before. The construction and services sectors showed more favourable performance, which offset the weakness in the manufacturing sector. Despite the absence of GDP growth, employment continues to increase (0.4% year-over-year in May) and the unemployment rate decreased to 9.9%. Inflation was less than 1% in June. Public accounts performed better than expected in the initial months of 2019. As a result, the government was able to move the deficit target for 2019 from 2.4% to 2% of the GDP. Nonetheless, the debt-to-GDP ratio continued to rise.

On currency markets, the Euro did not see substantial changes on the US dollar, with monthly averages that fluctuated in a very small range of 1.119 to 1.142.

The first half of 2019 featured a general increase in risk appetite of investors on international stock indices, which translated into generally highly positive performances of these stock indices, though with differing trends and intensity within the period.

Among the factors supporting the stock markets, we specifically note the monetary policies of central banks, which returned to adopting an expansive approach, to support a slowing down international economic cycle.

Recent corporate results in the Eurozone were both positive and negative. Though occurring among signs of weakness in the economy and profit trends (specifically in the first quarter of the year), these provided positive elements to investors, frequently confirming the guidance provided on the current year.

Among the negative factors, the most important was the new escalation of tensions in international trade between the United States and China, with new duties imposed in May, though mitigated by the announcement of negotiations starting up again at the end of the half year. More generally, the consolidation of protectionist policies had an impact, representing a potential brake on cyclical expansion.

European Parliamentary elections did not have significant impacts on the stock markets, with pro-EU political parties prevailing, while a dialogue on public finance was started between Italy and the European Commission, also in view of the upcoming government budget for 2020.

The Euro Stoxx index closed the half year up by 14.4%, the performance of the CAC 40 was highly positive (+17.1%) at the end of the period, as well as that of the Dax 30 (+17.4%), while the IBEX 35 underperformed, closing the half year at +7.7%. Outside the Eurozone, the Swiss market index SMI reported a strong increase (+17.4%), while the United Kingdom's FTSE 100 index closed the half year up by +10.4%.

In the US equity market, the S&P 500 index ended the half with a largely positive balance (+17.4%), while the Nasdaq Composite technology stocks index performed even better, closing the period at +21.2%. The main Asian stock markets showed positive performance, with differing intensity: the Nikkei 225 index ended the half at 6.3%, while the Chinese SSE A-Share benchmark index reported a much better performance (+22.1%).
The Italian stock market recorded positive performance overall at the end of the half year, though with extreme volatility during the period: the FTSE MIB index ended up by 15.9%, after recording a peak of +20.3% on 17 April, and the FTSE Italia All Share index showed a slightly lower performance (+14.9%). Mid-cap stocks marginally underperformed blue chips; the FTSE Italia STAR index ended the half up 13.6%.

The European corporate bond markets ended the first six months of 2019 with risk premiums (measured as asset swap spread - ASW) down compared to the beginning of the year. The period was marked by an overall positive tone, except in May, when, above all, the uncertainties linked to the tensions between the United States and its main trade partners contributed to an increase in risk aversion: in that month spreads expanded on April by around 25% for the Investment Grade (IG) sector, and by around 14% for High Yield (HY) securities (Datastream data).
In 2019, monetary policies confirmed their position among the main market drivers, both for the US Federal Reserve and the ECB. At its June meeting, the ECB announced that it could be ready to launch a new asset purchase programme if the economic scenario were to evolve adversely. The opening to new expansionary policies, their impact on interest rates, and the resulting search for yields by investors, had positive effects on all asset classes, both high and low risk, also due to the fact that, as demonstrated by the data provided by Moody's, global default rates for speculative securities were confirmed at very low levels.
In this context, the first half of 2019 saw similar performance for IG and HY securities: according to the data provided by Datastream, spreads of the two asset classes tightened by around 27% since the beginning of the year. At sector level, the performances of industrial and financial bonds were substantially similar.
The evolution of interest rates also had a positive effect on the primary market, where volumes increased, especially in June. The search for yields was reflected in strong demand for each single issue, also for Italian issuers, despite the uncertainties linked to the negotiations between the European Commission and Italy with regard to sovereign debt. In the first half of 2019, the trend in "green" issues, linked to projects having a positive impact on the environment, strengthened further. This trend also regarded issuers that are not strictly connected with the utilities sector, such as industrial companies and financial institutions.

The emerging economies and markets

In the initial months of 2019, the GDP performance in emerging countries continued on the path of gradual slowdown which began in the second half of the previous year. This was impacted by the uncertainties linked to the trade policy approach of the United States, international and domestic political tensions and the trend in commodity prices, as well as specific factors such as the adverse weather conditions in several countries.
In the first quarter, the year-on-year growth in the GDP for a sample covering 75% of emerging countries slowed to 4.1% compared to 4.6% in the previous quarter and 5.2% in the same quarter of 2018. This result reflects the slowdown in the economies in the BRICS Group, which was particularly sharp during the quarter for Brazil (GDP +0.5% year-on-year), Russia (GDP +0.5%), South Africa (GDP +0.1%) and India (GDP +5.7%), while China kept a pace in line with the 4th quarter of 2018 (GDP +6.4%). With regard to countries where ISP subsidiaries are located, the year-on-year performance of the economy remained particularly lively in CEE countries (specifically in Hungary) and in Croatia and Romania, among SEE countries, while it slowed in Serbia and CIS countries. In the MENA area, Egypt kept on its path of sustained growth (GDP +5.6%).
Following the first quarter, in the period of April and May, the year-on-year growth rate of industrial production showed signs of recovery in Brazil (from -2% in the 1st quarter to +1.7% in the two-month period April-May) and in Russia (from +2.1% to +2.8%), while it slowed down in China (from +6.4% to +5.2%). The manufacturing PMI for the 15 emerging economies that publish this indicator dropped to 49.9 in June, the lowest level in five months. In CEE/SEE countries where ISP subsidiaries are located, high frequency indicators seem to suggest that the GDP trend in the second quarter will remain strong overall.
The year-on-year inflation rate across a sample covering 75% of emerging economies rose to 4% in May 2019 from 3.5% in December 2018. The acceleration was due to the volatile components of foodstuffs and hydrocarbons, while underlying inflationary pressures remained low. In countries where ISP subsidiaries are located, the strong internal demand resulted in some pressure on prices in the CEE/SEE areas, though largely balanced by the normalisation of previous increases in hydrocarbon prices. In the CIS area, the increase in VAT triggered an increase in inflation, which rose to 4.7% in Russia in June (above the 4% target), but the impact on the price index was less than forecast. In May, inflation changed slightly in Ukraine (+9.6%) while it accelerated sharply in Moldova (+4.6%). In the MENA area, inflation was erratic in Egypt in the half year (down to 9.4% year-on-year in June after 14.1% in May), partly due to a mismatch in the review dates of several administered tariffs in 2018 and 2019.
In the first half of 2019, central banks in most emerging countries showed easing signs. This approach followed the change in outlook of the main central banks in advanced countries (with the Fed and the ECB not ruling out rate cuts), the phase of greatest easing (save for sporadic tensions, such as in Turkey in May) on the international capital markets, and expectations of weakening of the cycle.
In countries where ISP subsidiaries are located, monetary policies remained accommodating overall in CEE/SEE countries, with the exception of the Czech Republic, where the rise in inflation led the central bank to continue on its path of monetary restriction. In the group of CIS countries, key interest rates were cut in Russia (-25 basis points) and Ukraine (-50 basis points), while the acceleration of inflation led the Central Bank of Moldova to implement - in June - the first increase in key interest rates since 2016 (+0.5% to 7%). In the MENA area, the slowdown in inflation led the Central Bank of Egypt to decrease the key interest rates by 100 basis points in the initial months of the year.
The MSCI Emerging Markets Index gained 8.7% in the first half of 2019, following the increases in both the Euro Stoxx (+14.4%) and the S&P USA Index (+17.4%). The boost was mainly provided by several Asian (Shanghai, +19.5%) and Latin

American markets (Sao Paulo, +14.9%) while Middle Eastern stock markets showed weaker performances, penalised by regional tensions and the year-on-year decrease in the price of oil (average price in the first half was -10% year-on-year), though recovering compared to the fourth quarter of 2018.
Considering countries where ISP subsidiaries are located, in CIS countries, the rate cuts and additional progress in stabilising the domestic financial situation provided a significant boost to the Russian index (+29.5%) while the Ukrainian stock market (-1.9%) was impacted by the slowdown in the economy and political uncertainty. In the CEE/SEE areas, double digit increases were gained in Romania and Slovenia, while Egypt outperformed the rest of the MENA countries (+8.2%) due to sustained growth of the economy.
The tensions over currencies that had affected the second half of last year gradually eased, due to the changed expectations of monetary policy in advanced countries, which resulted in a generalised reduction in risk premium and less concern regarding the capacity of countries with large current account deficits to finance to meet their commitments. In the first half of 2019 the US dollar showed no significant changes against a basket of emerging country currencies (OITP index +0.2%), despite the further depreciation of both the Argentine peso (-11.4%) and the Turkish lira (-8.2%), focal points of the tensions on currencies seen in summer 2018.
In countries where ISP subsidiaries are located, both the Russian rouble (+9.2%) and the Ukraine hryvnia (+5.9%) both appreciated against the US dollar, supported by the high domestic interest rates and greater confidence in the continuation of stabilisation policies. The currencies of CEE/SEE countries saw little change on the US dollar, a performance that reflects that of the EUR/USD exchange rate. In the MENA area, the Egyptian pound gained strength on the US dollar (+7.3%), benefiting from the currency inflows, both for the current portion (tourism, remittances, Suez Canal) and the financial portion.
In the first half of 2019, yields on the long section of the curve followed those of advanced countries downwards. With regard to the trend in the CDS spread, in countries where ISP subsidiaries are located this process involved both CEE/SEE countries (specifically, Slovakia and Slovenia in the Eurozone and Croatia and Romania among the other EU countries), and CIS countries and, in the MENA area, Egypt. In the same period, Russia and Egypt saw their ratings upgraded, by Moody's and by Fitch and Moody's, respectively.

The Italian banking system

Interest rates and spreads

In the first half of 2019, upwards adjustments to interest rates on new loans continued, though they were small and not generalised, so that interest rates remained at historically low levels. While interest rates applied to businesses on new loans of large amounts were slightly lower than in 2018, those on loans of smaller amounts rose to 2%, with an increase of 6 basis points on the previous year. Compared to Europe, Italian rates on new loans to businesses remained well below the Eurozone average, for larger loans, while for loans of up to 1 million euro they returned to levels slightly higher than the average. Rates on mortgage disbursements to households were also impacted by repricing actions, especially at the beginning of the year and on fixed-rate mortgages. Nonetheless, subsequently, rates on mortgage loans readjusted downwards and their levels remained at historical lows. Considering the marginal changes in interest rates on new loans, the average rate on outstanding loans recovered slightly from the lows reached at the end of 2018, but remained at the average level recorded in the second half of 2018.
With regard to the remuneration of deposits, the low levels of key interest rates and high liquidity on accounts justified the stability of rates on current accounts near zero, in line with the second half of 2018. Conversely, the average rate on new time deposits increased, confirming the signs that arose near the end of the previous year. The increase was above all the result of the rise in interest rates paid on the longest durations of new deposits from households. Nonetheless, the overall cost of the stock of customer deposits was lower than in 2018, also due to the shifting of the aggregate towards less costly forms of funding and an additional slight decrease in the average interest rate on outstanding bonds.
Along with the average interest rate on the stock of loans remaining stable, the reduction in the cost of customer funding permitted a slight recovery in the spread between lending and funding rates. As in the previous seven years, the mark-down on sight deposits remained on negative ground, while the mark-up recovered slightly on the values of the second half of 2018, due to the rise in short-term lending rates.

Loans

Robust growth in loans to households continued, at the average pace of 2.6% year-on-year in the first half, driven by loans for house purchase and consumer credit. However, disbursements of mortgage lending were down, mainly due to the sharp decrease in renegotiations, but also due to the decrease in new agreements. The performance of mortgage loans to households was preceded by a drop in applications, which continued throughout the half year. Fixed-rate mortgages remained predominant, because of interest rates still at lows. Consumer credit disbursed by banks confirmed a growth rate of between 8% and 9% year-on-year with regard to the stock, and volumes of new transactions also continued to increase.
Conversely, loans to non-financial companies have been falling once again since the beginning of 2019, partly as a result of the weakness of the economy. The performance of loans continued to be characterised by different dynamics depending on sector, company size and geography, though the slowdown was generalised. Based on data net of bad loans (performing loans), loans to the manufacturing industry were stagnant on average during the first five months of the year, following the growth recorded in 2018. Moreover, loans to construction companies continued to fall at a more or less steady rate, as the gradual improvement of the negative trend ceased. Loans to medium and large businesses decreased slightly in the initial months of the year, while the drop in those to smaller businesses gained strength. The slowdown of the trend from the start of 2019 was particularly sharp for loans to businesses in the Centre-North of Italy.
The performance of loans to businesses saw weak demand and a stance of supply which became slightly restrictive again in the second quarter, after becoming more cautious even near the end of 2018, mainly due to the worsening of the perception

of risk by intermediaries. According to the credit survey conducted by the Bank of Italy, banks slightly increased the margins applied to loans, specifically for riskier loans. In the half year, business opinions on credit access conditions confirmed a slight tightening, though less than that occurred in the last quarter of 2018. The liquidity situation remained relaxed and was considered sufficient or more than sufficient by a large majority of companies. Business debt as a percentage of GDP also continued to fall in the first quarter of 2019.
In the first half of 2019, Italian banks consolidated a great deal of progress made in 2018 in reducing asset risk. The credit quality indices confirmed the improvements, due to the lower inflows of non-performing exposures, the more effective recovery activities and the sales and securitisations under way by banks. The stock of net bad loans remained at the levels reached at the end of 2018, equal to 33 billion euro in May 2019, about halved compared to December 2017 and decreased by two-thirds versus the end of 2016. Net bad loans as a percentage of total loans stabilised at 1.9%, down 3 percentage points compared to the peaks of 2015-2016. The default rate in terms of flow of non-performing loans in relation to total performing loans was down, lower than the pre-crisis levels, equal to 1.3% in the first quarter of 2019 on an annualised basis.

Direct deposits

Customer funding increased at a slightly accelerating pace, driven by robust growth in deposits and the slowdown of the drop in the stock of bonds. In the area of deposits, the positive performance of current accounts continued, though more moderate than in 2018. It is worth noting the interruption of the drop in the stock of time deposits, after around five years of continuous negative change. This recovery was mainly due to the inflows to time deposits of non-financial companies, seen from September 2018 until May. The cumulative inflows to time deposits of households were more moderate, but just as positive in the first six months of 2019. An improvement in the trend was also observed for bonds, which saw a continuous slowdown in the decline in stock and a recovery in issues on the wholesale market, though at higher costs than in spring 2018. Overall, also considering the use of Eurosystem refinancing, which decreased slightly year-on-year, and funding from non-residents, which on the contrary increased, total funding from banking business grew by 1.8% on average year-on-year in the first five months.

Indirect deposits and asset management

For assets under administration, in spring 2019 the decrease in debt securities of households held in custody at banks was interrupted, and the aggregate at nominal value showed the first signs of increase after more than six years of sharp decline. This performance reflected the slowdown in the drop of bank bonds. The growth in Italian government bonds, already recorded during 2018, continued.
With regard to the asset management industry, in the first five months of 2019, mutual funds and portfolio management were impacted by carry-over effects, due to the highly unfavourable performance of financial markets in 2018, then showed the first signs of recovery in June. For mutual funds, in the first half, net outflows continued from equities and flexible funds, which were not offset by the weak inflows to balanced funds, bond and money-market funds. Portfolio management, on the contrary, seemed to have reversed the trend in the first quarter of the year, but this was followed by net outflows in the following three months. Better performance is seen in managed assets, which registered a recovery both for funds and mandates compared to the end of 2018, due to a positive performance effect, boosted by improvements in stock prices and the stopping of increases in domestic and foreign interest rates.
The good moment continued for traditional life insurance which, after returning to growth in 2018, recorded a double-digit growth rate once again in the first five months of 2019, also due to the increasing contributions of the placement of multi-class products. Conversely, unit-linked policies continued to drop sharply. The fall was stronger for stand-alone products. Therefore, overall new business decreased on the first five months of 2018, both in amount and in number of policies.

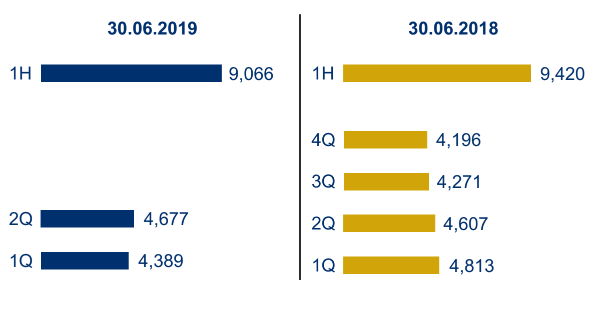
Intesa Sanpaolo in the first six months of 2019

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 June 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.

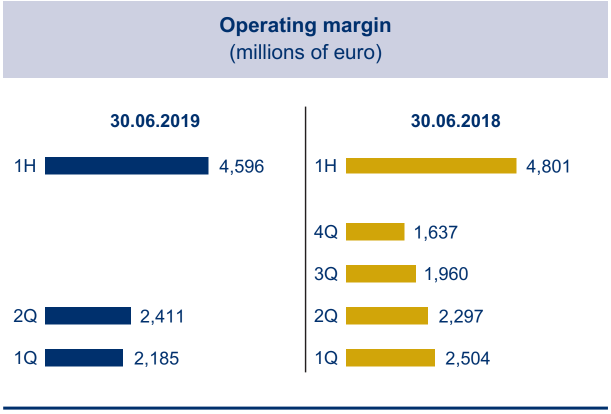
Consolidated results

The Intesa Sanpaolo Group closed its income statement for the first half of 2019 with net income of 2,266 million euro, up by around 4% on 2,179 million euro for the first half of the previous year, which also included the positive effect of the fair value measurement of the interest held in NTV - Nuovo Trasporto Viaggiatori (246 million euro) recorded in the first quarter in relation to its subsequent sale. The change was favoured by lower adjustments and provisions, in the presence of slightly declining operating income and decreasing operating costs.
The net income was also impacted by the levies and charges for the banking system, whose amount was higher than the comparative figure.

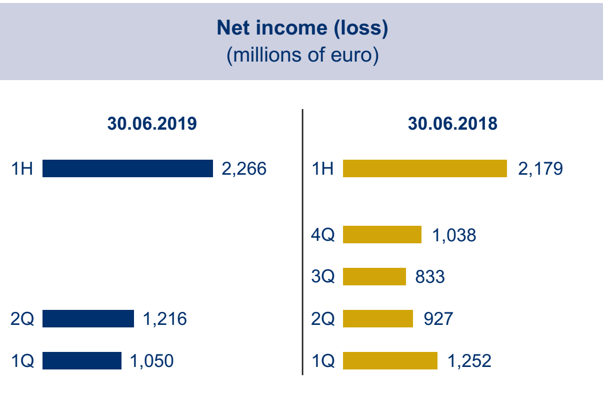
Operating income
(millions of euro)



The detailed breakdown of the components of operating income showed net interest income for the period of 3,517 million euro, which decreased at overall level (-4.7%), almost entirely due to lower interest on non-performing assets in the presence of lower income from customer dealing and the related hedges, which was offset by a higher contribution from financial assets.
The lower contribution from net fee and commission income (-4.1%, to 3,875 million euro), which represented around 43% of operating income, was fully attributable to the management, dealing and financial consultancy segment (-7.5%), which reflected market trends, while revenues from commercial banking activities and other fee and commission income recorded increases (+0.4% and +3.8%, respectively).
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 in line with the figure for the first six months of the previous year (575 million euro).
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, were up on the figure for the first half of 2018 (approximately +3%, to 1,090 million euro), which had benefited – as mentioned above – from the effects of the fair value measurement of the interest held in NTV - Nuovo Trasporto Viaggiatori (264 million euro) in relation to its sale. The caption includes the positive effect of the sale of debt 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 offsets 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 half of 2018 (9 million euro compared to +55 million euro for the first half of 2018) 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.
As a result of the above performance, operating income for the first half of 2019 amounted to 9,066 million euro, down 3.8% on the first six months of 2018.



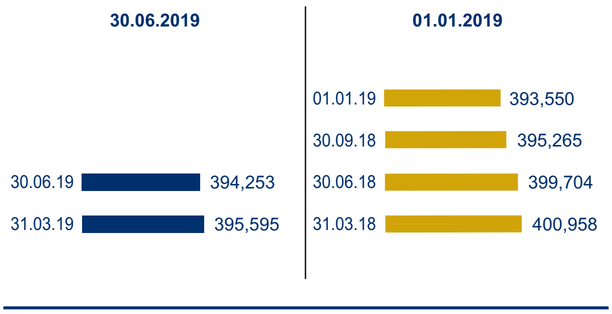
Operating costs (4,470 million euro) were down (-3.2%), both for personnel expenses (-2.6%), in relation to the downsizing of the workforce, and for administrative expenses (-6.2%), which fell across all the main expense items. Amortisation and depreciation were essentially in line with the first six months of 2018 (+0.2%). The cost/income ratio for the period, which reflected the revenue performance, stood at 49.3%.
As a result of the revenue and cost trends, the operating margin amounted to 4,596 million euro, down by 4.3% compared to the first half of the previous year.
Net adjustments to loans fell overall to 923 million euro (around -22%), 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 cost of risk dropped from 59 basis points in the first half of 2018 to 47 basis points in the first half of 2019.
Other net provisions and net impairment losses on other assets decreased overall to 67 million euro (86 million euro for the first half 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 (7 million euro) compared to a figure of 1 million euro for the first half of 2018.
In the first half of 2019, just as in the period of comparison - the first half of 2018 - there were no gains/losses on discontinued operations.
As a result of the trends illustrated above, gross income was up, at 3,613 million euro (+2.1%).



Taxes on income came to 985 million euro, with a tax rate of 27.3%.
Net of tax, charges for integration and exit incentives were recorded of 52 million euro, as well as the effects of purchase price allocation of 69 million euro.
The charges aimed at maintaining the stability of the banking industry were up on the first half of the previous year, to a total of 242 million euro after tax (219 million euro in the first quarter of 2018), corresponding to 344 million euro before tax, and essentially consisted of charges for the full year 2019 for ordinary and additional contributions to the resolution funds.
After allocating the losses attributable to minority interests of 1 million euro, the income statement for the first half of 2019 closed, as stated, with net income of 2,266 million euro, compared to 2,179 million euro in the first half of 2018.

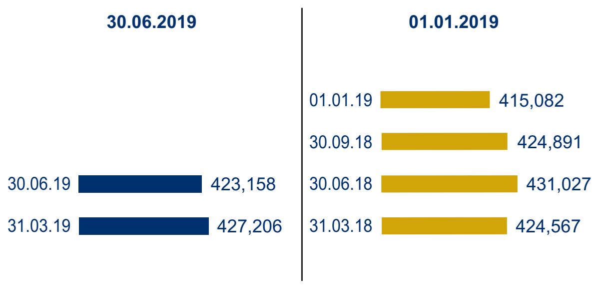
The income statement for the second quarter of 2019 in comparison to the previous quarter showed growth in operating income (+6.6% to 4,677 million euro). In detail, net interest income in the second quarter grew marginally on the first quarter (+0.3%), while net fee and commission income showed a greater increase (+5.5%), attributable to all operating segments: commercial banking activities (+3.3%), management, dealing and consultancy activities (+6.3%) and other fee and commission income (+7.1%). Income from insurance business in the second quarter of 2019 was lower than in the first quarter (-2.4%), due to the fall in the net investment result. Financial activities in the second quarter of the current year grew significantly compared to the first three months (approximately +39%). Operating costs in the second quarter rose slightly compared to the previous quarter (+2.8%). The increase is attributable both to personnel expenses (approximately +2%) and administrative expenses (+7%).
In relation to revenue and cost trends, the operating margin for the second quarter was higher than the margin in the first quarter (+10.3%, to 2,411 million euro).
Adjustments to loans recognised in the second quarter rose compared to the first quarter, mainly due to 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.
As a result of these trends, gross income grew (+1.6%, to 1,821 million euro), despite higher net provisions and net impairment losses on other assets (approximately +23%).
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 second quarter closed with net income of 1,216 million euro, compared to 1,050 million euro for the previous quarter.

Loans to customers
(millions of euro)



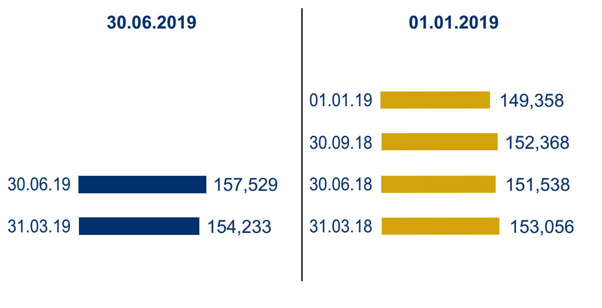
As regards balance sheet figures, as at 30 June 2019 loans to customers amounted to around 394 billion euro, up slightly (+0.7 billion euro, or +0.2%) on the beginning of the year, due to the varying trends in the components that make up the aggregate. Specifically, commercial banking loans were stable overall, due to the favourable trend in advances and other loans (+3.1 billion euro, or +2.2%), which fully absorbed the decrease in current accounts (-2.2 billion euro, or -9.8%) and the decreasing trend in mortgage loans (approximately 1 billion euro, or -0.6%). The decrease in non-performing loans (-0.6 billion euro, or -3.7%) was offset by the increase in loans represented by securities (+0.6 billion euro, or +12.7%).
Lastly, the financial component represented by repurchase agreements rose slightly (+0.7 billion euro, or +2.1%).

Direct deposits from banking business
(millions of euro)



On the funding side, direct deposits from banking business amounted to 423 billion euro at the end of June, up since the start of the year (+8.1 billion euro, or +1.9%) due to the greater amounts of current accounts and deposits (+12.3 billion euro, or +4.2%), owing to customer appetite for maintaining a high level of liquidity, as well as other deposits (+3.7 billion euro, or +16.7%), including commercial paper and certificates. Repurchase agreements decreased significantly (-7.6 billion euro, or -31.7%), in relation to the decrease of operations with institutional customers.

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



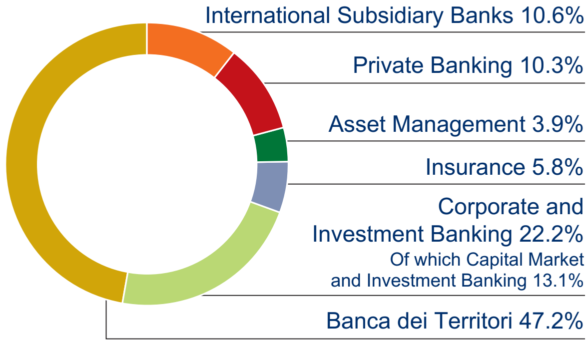
Direct deposits from insurance business – which also includes technical reserves – amounted to 158 billion euro at the end of the half year, up compared to the start of the year (+8.2 billion euro, or +5.5%). Specifically, there was an increase in both financial liabilities measured at fair value (+4.2 billion euro, or +6.2%), consisting of unit-linked products, and in technical reserves (+3.9 billion euro, or +4.8%), 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 half year amounted to around 515 billion euro, up since the start of the year (+19 billion euro, or +3.9%), 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 13.5 billion euro (+4.1%), driven by all components: mutual funds (+3.9 billion euro, or +3.3%), technical reserves and financial liabilities of the insurance business (+5.2 billion euro, or +3.7%), portfolio management schemes (+2.8 billion euro, or +5.4%), pension funds (+0.8 billion euro, or +8.9%) and relations with institutional customers (+0.9 billion euro, or +6.6%).
Assets under administration increased by 5.9 billion euro (+3.6%), mainly due to third-party securities and products.

Results of the Business Units

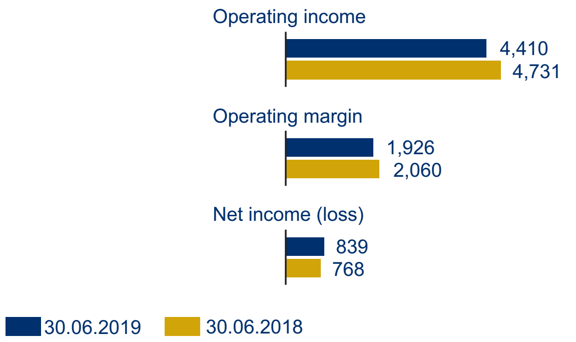
The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre, which is responsible for guidance, coordination and control of the entire Group, as well as for the Treasury and ALM operations.
The share of operating income attributable to each business area confirms that commercial banking activities in Italy continue to account for the majority (approximately 47% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 22%), commercial banking activity abroad (approximately 11%), private banking activity (10%), insurance activity (approximately 6%) and asset management (approximately 4%).
Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary.

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

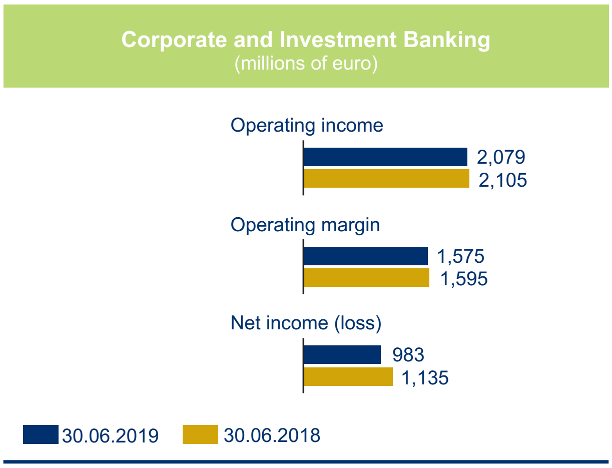


[(1)] Excluding Corporate Centre

Banca dei Territori
(millions of euro)



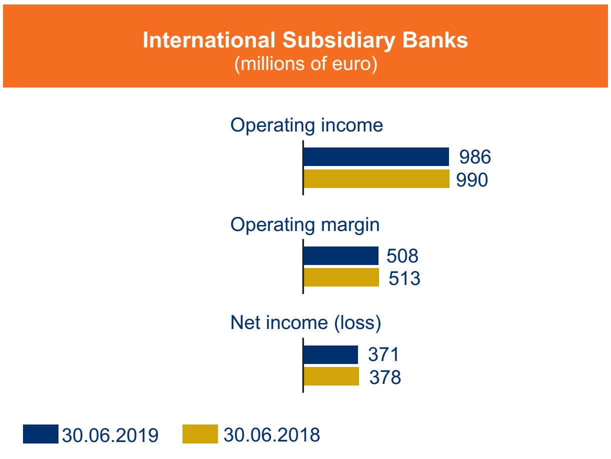
In the first six months of 2019, the Banca dei Territori Division – which oversees the lending and deposit collecting activities in Italy and related financial services – recorded operating income of 4,410 million euro, down 6.8% compared to the same period of 2018, as a result of the performance of net interest income (-6.4%, due to the lower contribution from loan volumes and the hedging of core deposits) and net fee and commission income (-6.4%, mainly attributable to the performance of assets under management, bancassurance and commercial banking). Operating costs, equal to 2,484 million euro, were down significantly (-7%) thanks to the savings in personnel expenses (-6%), attributable to the reduction in the average workforce, and in administrative expenses (-9%), due to lower service costs, mainly in the real estate sector, also in relation to the rationalisation of the branch network. As a result of the changes described above, the operating margin, amounting to 1,926 million euro, was lower than in the first half of 2018 (-6.5%). In contrast, gross income, which amounted to 1,332 million euro, was up 9.4% due to lower adjustments for credit risk. After allocation to the Division of taxes of 482 million euro, charges for integration of 10 million euro and the effects of purchase price allocation for 1 million euro, net income came to 839 million euro, up 9.2%.



The Corporate and Investment Banking Division – which oversees corporate banking, investment banking and public finance in Italy and abroad – posted operating income of 2,079 million euro in the first half of 2019, down slightly (-1.2%) on the same period of the previous year.

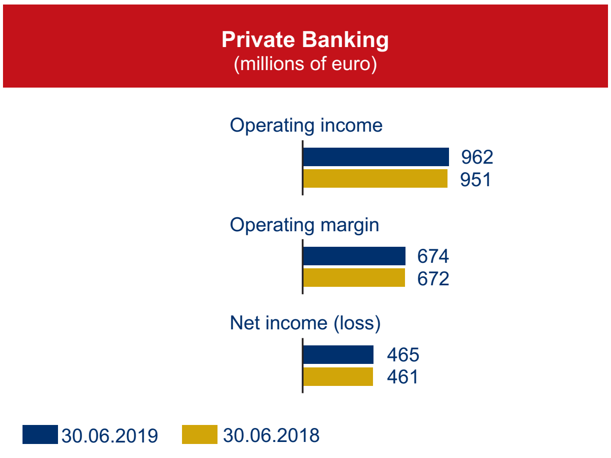
In detail, net interest income of 874 million euro was up (+7.1%). The increase was attributable to the Global Market segment, driven by the strong performance of the securities portfolio. In contrast, net fee and commission income, amounting to 463 million euro, fell (-2.1%), mainly due to the performance of the commercial banking segment. Profits on financial assets and liabilities designated at fair value, amounting to 740 million euro, were down on the figure for the first six months of 2018 (around -9%), which included the positive effect of 264 million euro from the fair value measurement and subsequent sale of the investment in NTV.

Operating costs amounted to 504 million euro, down slightly on the same period of 2018 (-1.2%), due to lower administrative expenses (-2%) and amortisation and depreciation, as well as to the substantial stability of personnel expenses (+0.5%). As a result of the above revenue and cost trends, the operating margin came to 1,575 million euro (-1.3%). Gross income, amounting to 1,456 million euro, was down 7.6%, mainly due to higher adjustments to loans and the abovementioned gain on NTV. Lastly, net income came to 983 million euro (-13.4%).



In the first half of 2019, the operating income of the Division – which is responsible for the Group's operations on international markets through commercial banking subsidiaries and associates – came to 986 million euro, down slightly (-0.4%) on the first half of 2018 (-1.8% at constant exchange rates). In detail, net interest income came to 679 million euro (+5.9%), while net fee and commission income, at 264 million euro, was up (+1.9%). Among the other revenue components, profits (losses) on financial assets and liabilities designated at fair value, amounting to 59 million euro, decreased significantly on the figure for the first six months of 2018 (-42.7%) when they also benefited from the gain realised on securities, while other operating expenses, which were marginal in amount, worsened.

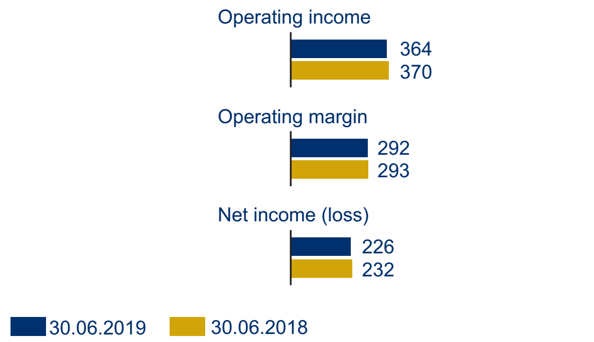
Operating costs, amounting to 478 million euro, remained at the levels of the same period of 2018 (+0.2%; -0.9% at constant exchange rates), as the slight increase in personnel and administrative expenses was almost entirely offset by lower amortisation and depreciation, mainly in the real estate sector. As a result of the above revenue and cost trends, the operating margin decreased slightly (-1%) to 508 million euro. The same trend was recorded in gross income, which amounted to 481 million euro (-1%). The Division closed the first half of 2019 with net income of 371 million euro (-1.9%).



The Private Banking Division – which serves the top customer segment (Private and High Net Worth Individuals) creating value by offering top products and services – generated gross income of 658 million euro in the first half of 2019, down (-11 million euro, or -1.6%) compared with the figure for the first half of 2018, due to higher operating costs (+9 million euro) and higher provisions (+11 million euro) and adjustments to loans (+2 million euro), in the presence of an increase in operating income (+11 million euro). In detail, the performance of operating income was attributable to an increase in net interest income (+13 million euro) and profits (losses) on financial assets and liabilities designated at fair value (+13 million euro), almost half of which was offset by the decrease in fee and commission income (-13 million euro) and a decrease in other operating income. Operating costs increased (+3.2%), due to the rise in personnel expenses, related to the strengthening of the workforce and the incentive system supporting growth, and amortisation and depreciation, mainly in the real estate area. Net income amounted to 465 million euro (+4 million euro, or +0.9%).

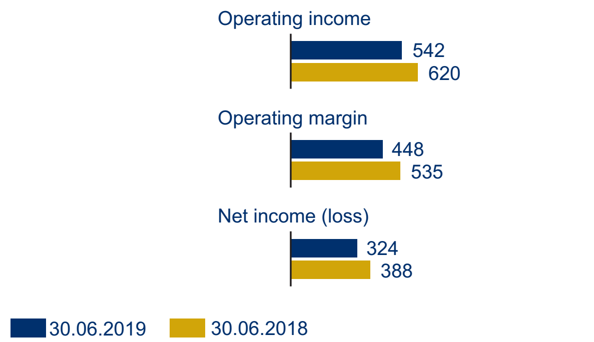
As at 30 June 2019, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 192.4 billion euro (+12.7 billion euro compared to the beginning of the year). This trend was mainly due to the market performance, which had a favourable impact on assets and, to a lesser extent, to positive net inflows. The assets under management component amounted to 118.8 billion euro (+6.9 billion euro).

Asset Management
(millions of euro)



The Asset Management Division – whose mission is to develop asset management solutions targeted at the Group's customers and is present on the open market segment through the subsidiary Eurizon Capital and its investees – posted operating income of 364 million euro in the first half (-1.6%). The decrease on the figure for comparison is attributable to lower fee and commission income. Other revenue components, of marginal amounts, provided a positive contribution. Operating costs recorded a decrease (-6.5%), both in the component of administrative expenses, thanks to the efficiency gains achieved, and in personnel expenses. As a result of the above revenue and cost trends, the operating margin came to 292 million euro, substantially stable (-0.3%) on the same period of the previous year. The Division closed the first half of 2019 with net income of 226 million euro (-2.6%).
Overall, assets managed by the Asset Management Division amounted to 252 billion euro as at 30 June 2019 (+3.9% on the beginning of the year), as a result of a positive market performance in the presence of net outflows.

Insurance
(millions of euro)



In the first half of 2019, the Insurance Division – which oversees the management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and of Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers – earned income from insurance business of 547 million euro, down (-12.6%) on the first six months of 2018, primarily due to fewer financial components compared to those in the first half of the previous year.
Gross income was down (-15.9%) and amounted to 448 million euro, mainly due to the fall in operating income (-12.6%). The increase in operating costs (+10.6%) was mainly attributable to the initiatives linked to the development of the non-life business.
Lastly, net income, after the attribution of taxes of 115 million euro, charges for integration of 1 million euro and the effect of purchase price allocation for 8 million euro, amounted to 324 million euro (-16.5%).

Highlights

Highlights for first half of 2019

During the half year, the corporate simplification process envisaged by the Business Plan continued according to the established schedule.
Specifically, the deed of merger by incorporation of Intesa Sanpaolo Group Services into Intesa Sanpaolo was signed on 11 January. The merger took effect with respect to third parties on 21 January 2019, while the operations conducted by the incorporated company were posted to the financial statements of the absorbing company, including for tax purposes, effective from 1 January 2019.
On 1 February 2019, the merger between Intesa Sanpaolo Private Banking (Suisse) S.A. and Banque Morval S.A. was completed. After obtaining the authorisations from the competent supervisory authorities, the new bank was renamed Intesa Sanpaolo Private Bank (Suisse) Morval S.A.. It was created to contribute to the strategic initiative outlined in the 2018-2021 Business Plan of the Intesa Sanpaolo Private Banking Division. The new company, which the London branch also reports to, is continuing the process of international expansion already begun by Fideuram – Intesa Sanpaolo Private Banking. The main branches (Geneva and Lugano) and the international network of private bankers will enable the expansion of the geographical footprint to high-potential countries, particularly in the Middle East and South America.
On 5 February 2019, the deeds were also signed for the merger by incorporation of Cassa di Risparmio di Pistoia e della Lucchesia into Intesa Sanpaolo, with an increase in the absorbing company's share capital of 64,511.72 euro through the issue of 124,061 ordinary shares without nominal value, and for the merger by incorporation of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze. The legal effects of the transactions started from 25 February 2019, while the accounting and tax effects started from 1 January 2019.
On 14 May 2019, the deed was signed for the merger by incorporation of Banca Apulia into Intesa Sanpaolo, with the issue of 247,398 Intesa Sanpaolo ordinary shares bearing regular dividend rights, without nominal value, and an increase in share capital from 9,085,534,363.36 to 9,085,663,010.32. The deed of merger by incorporation of Banca Prossima into Intesa Sanpaolo was then signed on 24 May. The legal effects of these two operations started on 27 May 2019 and were posted to the financial statements of the absorbing company from 1 January 2019 also for tax purposes. Lastly, the merger plan for the merger by incorporation of Mediocredito Italiano into the Parent Company was filed on 14 June.

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 9.36% on a fully loaded basis.

In February 2019, Intesa Sanpaolo announced the invitation to the holders or beneficial owners of the following series of notes outstanding: (i) U.S.$1,000,000,000 5.25% Section 3(a)(2) Notes Due 2024, (ii) U.S.$1,250,000,000 3.875% Rule 144A Notes Due July 14, 2027, (iii) U.S.$1,000,000,000 3.875% Rule 144A Notes Due 2028, and (iv) U.S.$500,000,000 4.375% Rule 144A Notes Due 2048 or the global receipts representing beneficial interests in any Series of Notes issued through Citibank N.A. as the receipt issuer, to tender their notes for the cash purchase by the Issuer, as described in the Tender Offer Memorandum of 7 February 2019. The offers, not subject to any future issue on the capital markets, form part of the liability management transactions carried out by the Issuer. At the close of the transaction, the total nominal amount tendered and accepted was USD 2,100,761,000.

On 30 April 2019, the Ordinary Shareholders' Meeting of Intesa Sanpaolo – in addition to approving the financial statements of the Parent Company, the allocation of the net income for the year and the distribution of the dividend to shareholders, the financial statements of the merged companies Intesa Sanpaolo Group Services and Cassa di Risparmio di Pistoia e della Lucchesia – appointed EY S.p.A. as the independent auditors for the financial years 2021-2029, determining their fee. The Shareholders' Meeting also appointed the members of the Board of Directors and the Management Control Committee for financial years 2019/2020/2021 on the basis of slates of candidates submitted by the shareholders.
The Shareholders' Meeting then passed specific resolutions on the remuneration and own shares. Specifically, it:
- approved the remuneration policies in respect of the Board of Directors of Intesa Sanpaolo;
- determined the remuneration of the Board of Directors;
- approved the remuneration and incentive policies for 2019 and voted in favour of the procedures used to adopt and implement the remuneration and incentive policies, as described in the Report on Remuneration;
- approved the increase in the variable-to-fixed remuneration cap for personnel operating exclusively in the Investment Management units belonging to Intesa Sanpaolo Group Asset Management entities, both in Italy and abroad;
- authorised the purchase and disposal of own shares to service the 2018 Annual Incentive Plan;

Lastly, the Shareholders' Meeting approved the proposal for the settlement of the liability action brought against Alberto Guareschi and Roberto Menchetti in their capacity as former Chairman and former General Manager of Banca Monte Parma, with proceeds of 4.35 million euro.

On 2 May 2019, the Board of Directors unanimously appointed Carlo Messina as Managing Director and CEO, granting him the powers necessary and appropriate to ensure consistent management of the Company.

The first sell-back of high-risk loans deriving from the Venetian banks in compulsory administrative liquidation 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. The high-risk positions reclassified as "bad loans" and/or "unlikely to pay loans" were sold back for 456 million euro, calculated per the contract on the basis of the gross carrying value of the reclassified high-risk loans, less (i) provisions at the date of execution and (ii) 50% of the

impairment losses which under IAS/IFRS the Intesa Sanpaolo Group would have recognised had the Banks in compulsory administrative liquidation not had the obligation to purchase. Since the Intesa Sanpaolo Group had already reclassified the loans in question as discontinued operations at a carrying amount consistent with the above consideration, no differences between the net value of the loans sold and their sell-back price emerged.
As at 30 June 2019, discontinued operations included the residual high-risk loans classified in the interim as “bad loans” and/or “unlikely-to-pay loans” and to be sold back by the end of 2019.

As a result of the acquisition of certain assets and liabilities and certain legal relationships of the former Venetian banks in compulsory administrative liquidation and the resulting provisions of the European Competition Authority to the Italian government, in the agreements dated 13 July and 12 October 2017, the ISP Group resolved to reduce staff by 4,000 resources (of which at least 1,000 within the scope of the former Venetian banks) by 30 June 2019.
As around 6,850 applications had been received, a number much higher than the 3,000 expected (in addition to the 1,000 applications regarding the former Venetian banks), also with a view to the Business Plan under preparation, the subsequent integration agreement of 21 December 2017 confirmed the acceptance of the “public offer” of the Protocol dated 12 October 2017 for all staff that applied, extending the validity of the agreement for voluntary access to the Solidarity Fund to 30 June 2020.
The postponement of the exits to 30 June 2020 and the reduction in the average time drawing on the Solidarity Fund made it possible to optimise the charges for voluntary exits to be borne by the Intesa Sanpaolo Group.
At the start of 2019, as a result of the effects of the legislative changes regarding pensions, the trade unions requested the assessment of the possibility of re-opening the terms for access to the Solidarity Fund and the retirement schemes set out in those agreements also to staff that, as a result of said legislative measures, could now fall within the scope of addressees of the Protocol dated 12 October 2017.
In that context, without prejudice to the overall amounts allocated to the Solidarity Fund and the exits for retirement pursuant to the agreements of 13 July, 12 October and 21 December 2017, and considering the full completion of the process of integrating the businesses of the former Venetian banks which, as a result of the achievement of synergies improved the measurement of excess production capacity, the Group confirmed its willingness to permit the voluntary exits also of people who were previous excluded, as an alternative to the required professional reallocation envisaged in the Business Plan.
In order to allow for incentives for the retirement of up to 1,000 people and for up to 600 people to participate in the Solidarity Fund, the agreement extended to 30 June 2021 the option to access the Solidarity Fund.

In the second quarter, the Group carried out the voluntary realignment of some tax values. Specifically, Intesa Sanpaolo exercised the option set out in Law no. 145/2018 (Budget Act 2019) to realign tax values to their higher carrying amounts, with regard to owned real estate assets, for which values to realign were identified for 1,955.6 million euro. These mainly derive from the revaluations carried out starting with the 2017 financial statements, following the adoption of the criteria for revaluation of the value of owner-occupied properties (IAS 16) and of the fair value for investment property (IAS 40). These correspond to a substitute tax of 269.4 million euro. At consolidated level, the exercise of this option resulted in: i) the recognition of substitute tax of 269.4 million euro, of which 93.9 million euro posted to the income statement for the period and 175.5 million euro to shareholders' equity; ii) the derecognition of net deferred tax liabilities of 622.6 million euro, of which 217.1 million euro through profit or loss and 405.5 million euro through shareholders' equity, with a positive impact on the income statement of the period of 123.2 million euro and an additional 230 million euro in shareholders' equity. The Board of Directors identified the share premium reserve in the financial statements to be classified as the suspended tax reserves, in an amount equal to the difference between the higher values realigned and the substitute tax due (1,686.2 million euro), which will be subject to approval by the ordinary shareholders’ meeting of Intesa Sanpaolo at the next possible meeting, presumably on approval of the 2019 Financial Statements.

The 2018-2021 Business Plan

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

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

De-risking
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans.
Under the project for the carve-out of a state-of-the-art loan recovery platform, Intesa Sanpaolo has established a joint venture with Intrum, in which it holds a 49% stake, for the servicing of bad loans. The transaction was finalised in 2018, and the joint venture will provide management and recovery services for ten years on most of the annual flows of the Group's NPLs.
The project for the sale of non-performing loans at book values aims to achieve a significant deleveraging of the non-performing loans at no extraordinary cost to shareholders. Also due to the sale to Intrum of the portfolio of 10.8 billion euro of gross bad loans, finalised in 2018, at the end of the first half of 2019 non-performing loans before adjustments came to 34.8 billion euro, decreasing their ratio to total loans to 8.4%. The cost of credit stood at 47 basis points.
The Pulse Platform introduces a centralised method of prevention and management of loan impairment in the Retail segment, from the very first signs of increased risk, with the aim of proposing negotiation solutions to customers in difficulty, preventing impairment of the loans. Following the release of the formalisation (renegotiation) platform in 2018, in the first half of 2019 operations were started on the collection platform for Individual customers, and Pulse operations were also extended, on a trial basis, to Retail businesses. The structure was scaled up with the launch of the Pulse hub in Forlì (the second hub launched during the year, and the fourth total), with the hiring of 28 new colleagues.
Lastly, the project for the scale-up of proactive credit portfolio management aims to strengthen the control of debt positions at risk of businesses in order to prevent significant increases in risk or transition into non-performing status. Among the activities carried out in the first half of 2019, monitoring and control instruments were developed, the second wave of measures dedicated to portfolios in stage 1 and 2 was completed and mitigation measures were launched on overdrafts.
As part of the active management of the loan portfolio and with a view to creating value for the Group, the Active Credit Portfolio Steering structure was also set up. The structure is working on significant credit risk transfers aimed at facilitating access to credit for businesses, by reducing the capital absorption.
The new credit strategy framework has also been established to support lending to the most attractive economic sectors in terms of risk/return.

Cost reduction
Cost reduction is the Second Pillar of the Plan, through which the Group aims to reduce the level of both fixed and variable costs on the income statement.
In the first half of 2019, labour costs amounted to around 2.8 billion euro, while the total workforce came to 90,888 people, a decrease of around 6,500 employees since the start of the Plan. The reskilling process led to the reallocation of around 1,190 employees to priority activities for the Plan (around 2,200 since 2018), while the renewal process resulted in the hiring of 200 specialist professional profiles (around 640 since 2018).
The Branch strategy project involves the streamlining and renewal of the network of bank branches, accompanied by the integration with alternative physical and virtual channels and non-captive networks. In the first half of 2019, the streamlining of the banking network resulted in the closing of 285 branches, while Banca 5® currently counts on a network of over 16,400 non-captive points of sale with bank terminals (of which around 4,500 already operational based on the new commercial model). Customers of Banca 5® can count on an ever-expanding range of services (including the new services: instant credit transfers, digital receipts and cash withdrawals) and their number continues to increase, as demonstrated by the around 50,000 users registered on the Banca 5® app and the 30,000 customers that use the Flash card.
With regard to actions on the Bank's virtual channels, we note the expansion of the "XME" product line, the process of certifying mobile phones of customers (both individuals and legal persons) concurrent with the migration from the physical O-Key to the virtual O-Key, the expansion of operations of the Online Branch, the development of the Remote Relationship Manager project (counting 114 resources as at 30 June) and the development of Digital Advertising and Proximity Marketing. With regard to non-captive networks, a series of initiatives are under way to develop activities carried out in partnership with Poste Italiane. As a whole, the Branch strategy activities made it possible to expand the Group's coverage of the Italian population up to 91% of the total.
The Real estate scale back project aims to optimise the Group's physical presence in Italy through the disposal of redundant spaces and the identification of less costly locations. During the first half of 2019, the scale back of real estate resulted in the reduction of surface area used by 165,000 square metres and the renegotiation of 368 lease payments.
In the first half of 2019 the corporate simplification programme of the Group's banking networks continued with five mergers by incorporation into the Parent Company (Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Cassa di Risparmio in Bologna, Banca Prossima and Banca Apulia).
Lastly, the plan to reduce administrative expenses entails a significant streamlining of costs through ICT synergies (the integration of the former Venetian banks into the target IT systems was completed, while the review of contracts in force

continued), rationalisation of structure costs, the monitoring of advisory fees, the centralisation of purchasing decisions, the dematerialisation of processes and the extension of internal best practice to the Group's international subsidiary banks.

Revenues

The third Pillar of the Business Plan seeks to increase operating income by capturing significant business opportunities in all the Divisions.
To achieve its objective of becoming one of the top four P&C Italian insurance companies and the first in retail non-motor, the Group is currently reviewing its strategies for the offering of products, their distribution and after-sales and claims management.
With a view to optimisation and operating efficiency, the implementation of the new multi-channel digital platform was launched, along with the complete redesign of operating processes.
There is a strong focus on the non-motor offer for retail customers and SMEs, which entailed, among other things, the completion of the lifecycle functions for the "XME Protezione" policy (upgrading and downgrading coverage), which allows for flexible management of insurance coverage over time, and the expansion of the offer to SMEs, also thanks to the marketing of the "Tutela Business Manifattura" product and the release of the "Pronto Intervento" service, which limits property damage following a claim (for example, remediation or restoration and subsequent rebuilding).
The "XME Salute" policy was enriched with additional services, to offer customers the option to book doctors' appointments online, also benefiting from significant discounts on healthcare services.
The motor range and the mortgage protection product were redesigned, also updating the price strategy and the supporting commercial initiatives, such as, for example, remote offering.
To strengthen the commercial effectiveness of the Banca dei Territori branches, more than 200 Protection Specialists were added and a training plan was set up dedicated to around 30,000 employees, with technical and commercial analyses, also of products for SMEs.
Numerous initiatives were implemented to ensure better after-sales management in the non-life business. Among others, these involve the strengthening of the organisational structure (500 additional FTE resources planned by 2021), the use of Instant Customer Feedback, to continuously and immediately record customer satisfaction, and assistance to relationship managers and customers on operating and process issues.
With a view to the international expansion of Private Banking, the acquisition of the Morval Group and the process of integration with ISPB Suisse, the migration of the UK branch to the scope of business of the "International Swiss Hub" and the transfer of Private Banking operations to Luxembourg have all been completed. The new range of products has also been launched and a single price list has been defined.
With regard to the "Bankers factory", the sales force was scaled up with the hiring of 140 Private Bankers and Financial Advisors in the first half (around 420 since the start of the Plan, of which 25 abroad), contributing to a substantial strengthening of roles. The first flexible banking contracts were also activated.[1]
New products were successfully marketed, with placements higher than expected, including several portfolio management schemes, while ESG (Environmental, Social and Governance) certification was obtained for the product factories. The service models are being upgraded for the various customer segments of Intesa Sanpaolo Private Banking and Fideuram, expanding the HNWI (High Net Worth Individual) structure for Private Banking and defining differentiated service models for each customer segment for Fideuram.
With regard to the development of the Digital Bank, activities continued for the migration of banking services (NDCE) to the target platform, both for Intesa Sanpaolo Private Banking (ISPB) and for Fideuram. Specifically, for ISPB the planned operations were completed to provide Group internet banking customers with the necessary customised features and assistance and training of customers and the network were managed. The new app was released and the massive migration was carried out of ISPB customers from the previous MyKey contract, which involved the disposal of the physical token, in compliance with the provisions of the PSD2. With regard to Fideuram, integration is under way of Alfabeto (the current portal for interacting with customers) with NDCE.
With regard to Asset Management, under the new three-year distribution agreement between Poste Italiane and Intesa Sanpaolo for Group financial products, the collaboration is continuing with BancoPosta SGR, activating new investment solutions and services in favour of the latter.
The offering to Banca dei Territori customers benefited from the redesign of the dedicated range of products and services, which was enriched with "tactical" solutions or those targeted to the enhancement of liquidity. Local initiatives were also developed to support the offering of asset management products to network customers. The offering of investment solutions and services to third-party networks was also expanded, while the positioning in the institutional business was strengthened through growth in the Foundations segment.
The digitalisation/automation of processes with low value added activities by operators was increased, in the Operations and Compliance areas.
The offering dedicated to Personal customers was rationalised and innovated with lines featuring customisable benchmarks and optional multi-manager components. the offering for the Private Banking Division was also expanded with multi-strategy/multi-asset products and solutions based on ESG (Environmental, Social and Governance) investment criteria. The Eurizon Italian Fund - ELTIF, the first closed-end Italian fund dedicated to the Italian stock market that complies with the European Long-Term Investment Funds EU regulations was launched.
With regard to the "Valore Insieme" model of advanced advisory services, the functionality for Out-of-Branch Offering was released, the training of selected managers and specialists continued, the service was repriced and surveys were conducted to assess customer satisfaction.
The international expansion of Eurizon Capital benefited from the opening of a sales office in Switzerland and a representative office in Madrid, pending the establishment of a branch. The commercial structure in Germany was also expanded.
The introduction of the flexible banking contract and the establishment of new training procedures for relationship managers and specialists confirm Intesa Sanpaolo as one of the most innovative organisations also in the management of working

[1] Flexible banking contracts combine two types of contract: employee and financial advisor.

relationships with its staff. There were 63 relationship managers with flexible contracts in the workforce at the end of the first half, and this number is expected to increase through the hiring of new graduates and the change over to the new contract for internal personnel (the first 3 conversions have been made).
As part of an extensive programme of digitalisation of the commercial offering, "Risparmio Digitale" services are being developed to enable customers to invest via App, with an initial focus on elementary investment products.
The offering for businesses was enriched with solutions dedicated to the Circular Economy. The pilot phase of the credit line with subsidised funding in favour of circular investments of SMEs and Retail Businesses was released, with the disbursement of the first loans. Relationship managers were assisted in commercial development actions by product specialists capable of supporting them in advising customers.
The "Impresa 4.0" offering (initiative to support companies' investments for the technological upgrade of plants and operating assets), which aims to increase the disbursement of loans also thanks to tax incentives, was enhanced, while "Convertibile Impresa" was launched. This is a medium/long-term product for innovative start-ups with the option for the Bank to convert the debt into an equity investment in the company.
The marketing was also launched for the electronic invoicing service "Digifattura", the new service that enables Banca dei Territori customers to meet the legal requirements for electronic invoicing.
The service model was upgraded to ensure more effective coverage of customers based on their specific characteristics, reorganising the activities of specialist international lending at the branches with a sales focus and defining new management methods dedicated to Public Entities and Treasuries. A survey was also released to record the level of satisfaction of customers handled out-of-branch.
To ensure greater support to the internationalisation of business customers of Banca dei Territori, a new service model was implemented, also based on leveraging the synergies with the International Network of the Corporate and Investment Banking Division and with the International Subsidiary Banks of the Group. Information and advisory initiatives were promoted to guide and support businesses interested in accessing international markets.
The new "Dialogo Industriale" platform was completed and released on the entire distribution network of the Banca dei Territori Division in support of the new model for relations with business customers: this new approach helps relationship managers liaise with entrepreneurs on a more informed basis, improving their ability to listen and understand customers' needs. In the first half of the year, additional functionalities were added to favour coordination between sales and lending structures, while the use of the Dialogo Industriale platform was extended also for the acquisition of new customers and the information assets linked to business supply chains were taken advantage of. Lastly, the set of information automatically made available to relationship managers was enriched, and new functionalities were implemented to identify priorities and business actions to be developed.
In the half year, the first of the new Impresa Plus Modulare offers was developed. This is an integrated solution of Bank products that meet common needs of business customers. The "Dipendenti Plus" offer is specifically targeted to companies that intend to take care of the well-being of their employees, with regard to the issues of welfare, pensions, protection and training.
With a view to strengthening its leadership positions on the Italian market, the Banca IMI Unit dedicated to Corporate Finance of Banca dei Territori business customers is now operational. The release of the New Corporate Portal was completed for all customers, enriched with new functionalities and capable of supporting customer internationalisation.
To develop international business, the Corporate and Investment Banking Division completed the hiring of 65 specialists, and the hiring plan is being updated to identify the priority positions to be filled in order to strengthen the coverage and skills of the international network.
The new Originate to Share model is operational, and the first transactions are being defined, with the two-prong objective of maximising returns on capital and increasing the contribution of net fee and commission income to total revenues. The partnership was also launched with Rubicon Capital Advisors, a leading independent investment banking advisory firm, to jointly develop business opportunities in the origination sector of the infrastructure and energy markets.
Work continued on the development of a new strategy for the International Subsidiary Banks, aimed at optimising the international presence and maximising synergies within the Group.
As part of the process of extending the HUB approach, the first process to reposition Intesa Sanpaolo Bank Slovenia in the SEE HUB was completed, moving the headquarters to Ljubljana. The alignment of the operating model and the strengthening of commercial synergies continued for the EC HUB, while the integration of the Moldovan subsidiary Eximbank (former Veneto Banca) into Intesa Sanpaolo was completed and the refocus plan was launched in Ukraine.
The activities of the Constellation (Core Banking System) project continued in Serbia and Slovakia and the Cooperation (centralisation of IT infrastructures) project continued in Hungary.
In addition, the preparatory activities for the feasibility study to define a new target IT service and operating model for the International Subsidiary Banks were completed. The target distribution model of the Group is being extended to the sales networks in Slovakia, Croatia, Serbia, Hungary and Slovenia and the preparatory activities have been launched to extend the model to Romania.
The sales network involved in the pilot phase of Wealth Management for the "affluent" segment was gradually expanded to Slovakia, Croatia, Hungary and Slovenia.
The activation of new functionalities and services of the digital channels continued at the participating banks (Croatia, Hungary, Egypt and Albania) and implementation was launched in Slovenia.
With regard to the development of Wealth Management in China, the application to obtain the CSRC (China Securities Regulatory Commission) licence to distribute financial products has been filed (the authority officially accepted the documentation) and the activities necessary to start up business are being finalised, as well as those to consolidate the operating model.
With regard to the establishment of the Security Company, the Joint Venture agreement and corporate governance have been finalised with the minority shareholders, and the applications have been submitted to the Bank of Italy and the ECB for authorisation to establish the company.

People and Digital Transformation
The Group's people continue to be Intesa Sanpaolo's most important resource and, in line with the strategy of the Business Plan, the Group implemented a series of initiatives dedicated to them.
The People Care project continued. It is one of the first actions aimed at improving employee satisfaction and has the goal of increasing employee engagement. Following the mapping and analysis of the internal offering of services, the main needs expressed by colleagues and the best experiences at both national and international level, the process for gradually enriching the services offered to Group employees was launched.
Another project being developed to support employees is the new Model for Listening and Support for hardship, which will be focused on psychological, legal, tax and social-welfare support.
The first structures in which the pilot phase of the Diversity and Inclusion project will be activated were identified. The project was developed to promote women's talent: the goal is to support greater inclusion and create the conditions for a significant presence of women in managerial roles. Several women managers were identified for the activation of the "Female Leadership Acceleration" project, and external communications initiatives were planned to promote the Group's sensitivity on this issue.
The International Talent Program for the development of the next generation of middle management continued with training programs, managerial mentoring and personalised career paths: the selection was completed for the new group of talents for the second edition, and their development paths were formalised.
The implementation continued of the digital human resource management platform and the ordinary maintenance of Global Banding, aimed at strengthening the spread of a Global Company culture, with the creation of uniform HR management systems at Group level, which ensure greater attractiveness and retention for talented individuals and top management, in addition to reducing organisational complexity and providing greater internal flexibility. Lastly, the Professional Banding activities were started on a pilot group.
The enhancement of employee skills involved the provision of around 2.8 million training hours in the first half of the year, an increase of 28% compared to last year. Major investments in training enabled the strengthening of the distinctive leadership of the managers and the extension of the digital training offering to all Group employees. Specifically, the introduction of new information content (around 850 Learning Objects added in the first half; 3,850 since the start of the Plan) has enabled greater access to the training platforms (Apprendo and Management School).
Around 13,000 employees signed up for smart working in Italy: this method of working improves employee productivity and satisfaction, strengthening their sense of responsibility and promoting a better work-life balance, while also optimising use of company spaces. The project is also being extended to the International Subsidiary Banks (at Banca Intesa Beograd for around 400 employees and Intesa Sanpaolo Bank Albania for around 100 employees). The results of the survey conducted to obtain information on the working experience of participating employees and obtain additional ideas for improvement are being analysed.
The Business Plan also includes significant investment in Digital Transformation. In the first half of 2019, with 8.8 million multi-channel customers, 4.7 million App users, around 27,600 customers managed by 114 remote relationship managers of the Online Branch and 258,000 companies reached by the Corporate/Business portal, Intesa Sanpaolo gained additional ground in multi-channel and digital banking. Products available on multi-channel platforms accounted for around 85% of the total, while sales through remote channels reached around 8%. New products/services made available to customers included Apple Pay services, contactless payment for the Milan Metro Lines, and electronic invoicing for SMEs.
The transformation projects regarding company consolidation and integrations, credit, recovering efficiency and data management continued as planned. Advanced analytics and artificial intelligence projects pursue objectives strictly coordinated with commercial objectives, such as service customisation, process automation and de-risking.
The level of digitalisation of activities exceeded 22% (+3.8% in the second quarter of 2019 on the first), while the extension of the target cyber security model continued, which currently comprises 19 Group companies.
Lastly, numerous initiatives to monitor innovation and disseminate the innovation culture within the company were launched. These include the monitor of the most significant trends in the technology and financial sectors, the program for managing relations with the Fintech Ecosystem, the Innovation Funnel, to select the best opportunities offered by technology that can be used by the Bank, and "Agorà dell'Innovazione", which entails opportunities for sharing information, engaging colleagues and customers.

Progetto Cultura

The promotion of art and culture in Italy represents a commitment that is recognised and synonymous with the identity, role and mission of Intesa Sanpaolo. For several years now, the Business Plan has been accompanied by Progetto Cultura, assigned to the Art, Culture and Historical Heritage Department of the Parent Company. This is an innovative three-year programme that plans the activities conceived, produced and organised by the Bank in the areas of art and culture, in partnership with the main national and international museums and institutions.
In addition, Intesa Sanpaolo, already a leading bank in the field of Corporate Social Responsibility, confirmed its role as an exemplary group in terms of social and cultural commitment, also through the Progetto Cultura initiatives, which contribute to consolidating the Group's reputation in Italy and abroad.
In the first half of 2019, there were almost 280,000 visitors to Gallerie d'Italia, the three museums of Intesa Sanpaolo opened in historic buildings in the heart of Milan, Naples and Vicenza to host permanent collections and temporary exhibitions. Three significant exhibitions that attracted a large number of visitors, namely *Romanticism* in Piazza Scala in Milan, *Rubens, Van Dyck, Ribera. The collection of a prince* at Palazzo Zevallos Stigliano in Naples and *Triumph of Colour. From Tiepolo to Canaletto and Guardi. Vicenza and the masterpieces from the Moscow Pushkin Museum* at Palazzo Leoni Montanari in Vicenza, have ended. Four main exhibitions and four dossier exhibitions were held, including: *From Clay to Algorithms. Art and technology* at Gallerie d'Italia in Milan, curated by Carolyn Christov-Bakargiev, co-produced with one of the primary global museums of contemporary art, Castello di Rivoli-Turin; *Myth. Gods and Heroes*, curated by Fernando Mazzocca, which, for the 20th anniversary of Gallerie d'Italia in Vicenza, showcased the extraordinary baroque decorations of the building in dialogue with the proprietary collections and works loaned from important Italian and foreign museums; *Sandro Botticelli.*

Lamentation over the Dead Christ, a masterpiece of the Renaissance master "special guest" at Gallerie d'Italia in Naples, on loan from Poldi Pezzoli Museum in Milan.
Confirming the central importance of didactic projects in the cultural planning of Gallerie d'Italia, in the first six months of 2019 around 44,000 children and young people participated in free laboratories dedicated to schools.
In line with the goal of promoting and sharing with the public the artistic heritage of Intesa Sanpaolo, composed of over 30,000 historical-artistic works, 110 works from the corporate collection were included in exhibitions at prestigious Italian and foreign museums.
The exhibitions in Italy included *Italia moderna 1945-1975* at Fondazione Pistoia Musei-Palazzo Buontalenti, dedicated exclusively to Intesa Sanpaolo collections, with a selection of 69 works of "Cantiere del '900"; *Burri* at the Isola di San Giorgio Maggiore in Venezia, realised for the Biennale Arte 58th Exhibition by Fondazione Cini and Fondazione Palazzo Albizzini Collezione Burri in partnership with the Bank, which included, among others, two works of the master in the Intesa Sanpaolo collection; the exhibition *Caravaggio. Napoli* at the Museum and Real Bosco of Capodimonte in Naples, which included the masterpiece of the Bank's art assets, the *Martyrdom of Saint Ursula* by Caravaggio; *Ottocento* at the San Domenico Museums in Forlì, for which two important paintings of Boccioni and Previati, owned by the Bank, were loaned.
Among the works loaned internationally, 23 works from the 1900s were lent – including masterpieces by Fontana, Manzoni and Castellani – and became the protagonists of the *Spatial Explorations* exhibition ("Highlights from Intesa Sanpaolo Collection" display) which was held at the Italian Cultural Institute of New York, while two masterpieces by Fontana were lent, first to the MET Breuer in New York and then to the Guggenheim Museum in Bilbao, for the two stops of the great retrospective *Lucio Fontana. On the Threshold*.
Following the acquisition of the large archive of photography agency Publifoto Milano for the Intesa Sanpaolo Historical Archive, a plan to promote those photography assets was launched, to which the exhibition *Nel Mirino. L'Italia e il mondo nell'Archivio Publifoto Intesa Sanpaolo 1939-1981* was dedicated. The exhibition was curated by Aldo Grasso and Walter Guadagnini, at Fondazione CAMERA-Centro Italiano per la Fotografia of Turin, of which the Bank was a founding partner in 2015.
An additional method for public use of owned assets is guaranteed by gratuitous loans. In the first few months of 2019, the lending of over 500 artworks belonging to Cassa di Risparmio di Pistoia e Lucchesia, now Intesa Sanpaolo, was finalised (17th Century Florentine paintings in the Bigongiari collection, the tempera wall paintings by Boldini, the 18th Century Pistoia works). Most of the artworks are on display at Palazzo dei Vescovi and Palazzo de' Rossi, the museum locations of Fondazione Pistoia Musei.
As part of the fair value measurement of the carrying amount of "valuable art assets" started in 2017, in the first half of 2019 monitoring of the performance of the national and international art market was carried out, with particular regard to the prices of the works/collections with higher values in the Group's asset register, equal to around 75% of the total value of the "valuable art assets". That analysis was conducted to support the annual scenario analysis required by the valuation rules applied by the Group.
Confirming the ongoing research and analysis conducted on the art assets and Italian art history, the 3rd annual convention *Linee di Energia* was held at the Intesa Sanpaolo Skyscraper in Turin, organised by the Bank with Fondazione Centro Conservazione e Restauro "La Venaria Reale" and Associazione IGIIC (Italian Group - International Institute for Conservation), which became an international opportunity for research and dialogue in the sector of restoration of contemporary art.
The year 2019 marked thirty years of operation of *Restituzioni*, the most important global restoration programme and an exemplary form of cooperation between public and private entities, thanks to which the Bank, in partnership with the Italian Ministry of Cultural Heritage and Activities, has recovered over 1,300 works of art in Italian heritage to date. The 19th edition of the project was launched in the initial months of the year, and will involve works from all Italian regions.
Support was renewed to museums and cultural institutions throughout the country for the realisation of exhibitions, festivals, initiatives regarding art, theatre, music, film, photography, books and literature, strengthening the Bank's links with the communities where it operates. It is worth recalling the following: the 24th Miart-International Fair of Modern and Contemporary Art in Milan, during which the Intesa Sanpaolo lounge hosted the dossier exhibition *Spazi immensi* by the young artist Paolo Bini, curated by Luca Beatrice, including, among others, the artwork *Paradise,* donated to the Bank and included in our art assets; the 32nd International Book Fair in Turin, which recorded 148,000 visitors; Palazzo Strozzi, in Florence, which hosted the great retrospective *Verrocchio, il maestro di Leonardo,* visited by 140,000 people; and the Museo Nazionale del Cenacolo Vinciano in Milan, which hosted the exhibition *Ultima cena per immagini*, an initiative linked to the celebrations of the 500th anniversary of the birth of Leonardo da Vinci.
In the first half of 2019, the Bank consolidated its partnerships with prestigious international museums, such as the Hermitage in Saint Petersburg and the National Gallery in London, which increase awareness of the Progetto Cultura and Gallerie d'Italia also beyond national borders and testify to the Bank's contribution to affirming the importance of Italian culture all over the world.

Other projects

Numerous projects also continued during the first half of 2019. The main projects carried out in the first half of the year are described below, with specific regard to those with cross-cutting impacts across the Group, which stem from specific lines of action set out in the Business Plan, as indicated in the specific chapter, as well as from regulatory obligations, risk control needs or business development opportunities.

Digitisation of Group Core Processes
The digitisation of Core Processes continued, via the Digital Factory in co-location mode, with the new Digital Business Partner structures. The objective continues to be evolving the operating model through innovation and the use of the new customer-driven and internal and external collaboration and co-creation based working practices. Since the inception of the initiative, 17 processes have been completed, including the following, which were completed using that method in the last quarter of 2018:
- Digital Wallet and Payment Engine: the project which has given rise to the XME Pay section, built into the Intesa Sanpaolo Mobile App and available to all customers of the Group's banks that have O-Key Smart;
- Dialogo Industriale: the project, which led to the creation of a tool that allows Corporate Relationship Managers to improve the effectiveness of their dialogue with corporate customers, by promoting knowledge of the business environment in which the customers operate, has been completed.
- NPL phase 2: the development has been completed for the Single Platform, which has been created to support Specialists in the management of non-performing loans, with a focus on corporate customers, in assessing the sustainability of debt restructuring taking into account future cash flows. The platform provides a structured view of the customer's current situation and the market environment, by simulating future scenarios based on bank strategies and rules in support of the negotiation strategy;

The work for the Insurance Wallet, Remote Manager and Digital Collaboration projects also continued:
- Insurance Wallet: thanks to the release of "XME Protezione" in the Branch Network, the Bank's customers can include cover for different types of risk (health, family, assets) in a single policy, with the possibility of adding and eliminating the cover during the lifecycle of the contract.
- Remote Relationship Manager: this project continues with the aim of offering a new remote advisory service to customers that, for business or personal reasons, cannot go to the Branch and prefer interaction through remote channels using a dedicated help service with extensive hours of availability. The pilot phase involves a group of remote relationship managers in the rooms of the Online Branch in Moncalieri, Padua and Milan;
- Digital Collaboration: alongside the Remote Relationship Manager project, the Digital Collaboration project has been launched, which will enable the development over the three-year period of the collaboration tools available to the Online Branch and Remote Relationship Manager, as well as the Network Branches. The first release step is scheduled for the first half of next year.

Big Financial Data (BFD)
The project activities for the Big Data Engine Programme, initiated in 2017, concentrated on continuing the initiatives already aimed at using the existing data lake in the single data repository and updating the priority business chains with the Big Financial Data (BFD), with a particular focus on regulatory activities. Specifically, efforts concentrated on the AnaCredit Project, in which the creation of the new reporting system was completed and the first reports were send to the Bank of Italy, on the High Frequency Credit Risk Management System (CRMS) and on the Accounting and Profitability areas, for which the work plans are currently being finalised.

G20 Reforms Project
The G20 Reforms project is intended to guarantee the adaptation of the operating model for the Group in order to respond to the regulatory obligations arising from the reforms undertaken by the G20 with regard to investments in financial instruments.
In the EMIR area, in the first half of 2019 the implementation continued of the IT interventions aimed at improving the quality of regulatory reporting, together with the revision of the methods for performing controls, with particular focus on reconciliations.
In the Dodd Frank Act area, in February 2019 the National Futures Association (NFA) launched an examination of the compliance of DFA obligations of Intesa Sanpaolo, in its capacity as Swap Dealer. The results of the examination will be formalised during the second quarter of 2019.
The project activities necessary to guarantee the activation of the system for managing the Initial Margin exchange continued. The regulatory start date for the obligation is 1 September 2019. That obligation is set out both by the EMIR regulation and the rules of the Dodd Frank Act.
In the area of the Securities Financing Transaction Regulation - SFTR the collection and preparation of the business requirements is under way, as per the project plan, as well as the as-is mapping of processes and the definition of target monitoring and control. Analyses and investigations are being conducted of various regulatory and operating issues, in order to define all the elements necessary to complete the IT development. The Trade Repository has been selected and several analyses are being conducted to assess whether to use external providers for reporting support services.

Cyber Security Program
In line with the new Security Regulatory Framework, the Intesa Sanpaolo Security Plan has been drawn up, which also includes the details of the Cybersecurity Business Plan for the period 2018-2021, its underlying strategy and the investments needed to support it.
In particular, this Plan envisages the implementation of the Group Cybersecurity Strategy, with several priority objectives: (i) strengthening and devising security measures for the "digitalisation" of the Group's services; (ii) extending the measures already implemented at Parent Company level to the Group entities; (iii) implementing integrated management of cyber risks, in line with the Group's Risk Appetite Framework (RAF); (iv) systematically employing the most innovative technologies; and (v) adopting a proactive role as an influencer in relation to cyber security issues at international level.

In 2018, the main projects were launched, including the roll-out of the new IT Security Model; the monitoring of the extension and evolution of the security structures (Security by design); the identification of the logical and technological framework and target architecture for the Single Digital Identity; the launch of activities regarding the assessment of security and the monitoring of the performance of suppliers; the extension of the Global Security Operation Center; the feasibility study for the strengthening of business continuity resilience; the awareness and training programme; the update of the Security Regulatory Framework; and the strengthening of national and international strategic and operational collaborations on cyber security.

New Group Register

The aims of this project, launched some time ago, are to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single platform for the management of customers available with innovative features, actionable in the various companies of the Group, and to enable the unification of the view on a single customer in relation to all the existing contact channels.

In 2018, the project managed the release phase of the new platform: the New Group Register was set up as a master registration platform, first on the pilot company (Mediocredito Italiano) and then on Banca Prossima, Intesa Sanpaolo Private Banking and Banca IMI.

At the same time, the cross-input of flows from the local databases at the foreign legal entities (ISP Provis, ISP Bank Romania, ISP Bank Albania, VUB Banka, PBZ Bank and CIB) was launched.

In the initial months of 2019, the first functionalities were activated for Intesa Sanpaolo and Fideuram – Intesa Sanpaolo Private Banking.

Data Collection on Credit/Credit Risk (AnaCredit)

The aim of the project is to adapt the Bank’s systems to comply with the regulatory reporting to the ECB (EU Reg. 2016/867), which consists of collecting granular (loan-by-loan) and harmonised data (compliant with the FinRep and CoRep requirements) to create a centralised analytical archive on loans granted by banking operators in the EMU/SSM area with the aim of obtaining an analytical view of the credit risk of those banks. This initiative, carried out as part of the Big Data Engine Programme, involves a variety of interventions both in terms of input sources and new engines.

After having completed the creation of the new reporting system, during the third and fourth quarters all the regulatory deadlines for sending new reports to the Bank of Italy were successfully achieved. The follow up phase was also activated to apply the reporting system throughout the Bank, bringing the new reporting fully on stream. The preparation of the process rules has also been completed.

“Lavoro Misto” flexible work (Minotauro Project)

The objective of the project is to implement the innovative working method, referred to as “Lavoro Misto” (flexible work), with the aim of providing a service more oriented to the diverse customer needs and expanding business opportunities. In this regard, a “flexible” employment framework was created, for work both as a permanent part-time employee and as a contractor for out-of-branch financial advisory services, to be offered to people from outside the Group, as well as the current Relationship Managers at the Banca dei Territori Division. The selections, which are currently under way from the participants in the Make It Real programme, entail a Branch internship and tutoring to obtain a financial advisor licence and a subsequent job in the company with a flexible contract. The flexible contract is also due to be activated for Intesa Sanpaolo Casa. In this initial phase, the various project areas are being launched, with the objective of start-up in the second half of 2019.

Integration of the Former Venetian banks into Intesa Sanpaolo

The integration of the former Venetian banks into Intesa Sanpaolo was definitively completed with the merger by incorporation of Banca Apulia into Intesa Sanpaolo on 27 May 2019, the date on which all the corporate simplification operations of the Banca dei Territori network, now fully comprised within Banca Intesa Sanpaolo, were completed.

In accordance with the provisions of law, the first retrocession of High-Risk customers to the banks in compulsory administrative liquidation was performed in May 2019.

Retail Early Warning System Project

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

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

In January 2019, the system was also activated for exclusive ISP Luxembourg customers, as part of the progressive roll-out of the new Early Warning System to all the regulatory segments and to the entire Group.

Procurement Centralisation Project – Phase 2

For the main Italian companies, the project seeks to complete the centralisation of the current procurement functions reporting directly to the Procurement Head Office Department, to reconfigure the authorities granted over time and to verify the operating model to be adopted, and, for the international companies, it aims to expand the process of guidance and control through advisory opinions and to centralise the sourcing of the most significant expenses. The project envisages extending the “Supplier Portal” to the companies within the scope, which will help both in centralising sourcing and in qualifying and controlling all the suppliers, in addition to monitoring the contracts in Italy. Work is underway for the implementation of the new Operating Model and for the project activities for the streamlining of the sourcing process and the censusing of the requirements on the "Supplier Portal" to adapt the application to the operational requirements arising from the integration of the new companies.

ENIF – Enabling Integrated Financial Crime

As part of the ENIF project, whose objective is to strengthen the anti-money laundering and embargo safeguards, the priority actions of the plan for 2019 set out in the project phase “Implementation of Phase 2” are under way, along with the preliminary analyses for the implementation of the activities planned for 2020.

PULSE
At the beginning of 2018, a project was launched to set up a dedicated collection unit called “Pulse”. The unit was set up on 1 July 2018 at the same time as the extension of the retail position management process to the entire network, of which it represents a management phase. The project continued with the release of the formalisation platform on 3 December 2018 and the release of the collection platform in April 2019. Analyses are under way for subsequent process adjustments.

OMEGA
In 2018 the project was implemented that led to the creation of Intrum Italy, a servicing platform which is 51% owned by Intrum and 49% by Intesa Sanpaolo, and the sale and securitisation of a portfolio of bad loans of the Intesa Sanpaolo Group. The project involved the establishment of organisational structures dedicated to interacting with the outsourcer and monitoring and supporting the activities assigned to it, as well as the management of positions not delegated or sold. The new structure became operational as of 1 December 2018. In 2019, as part of the “Omega fase III” project, the fine-tuning of processes, IT systems and post-closing legal and contractual activities continued.

Partnership with Poste Italiane
This initiative involves the creation of a dedicated proposal model, in which the Banca dei Territori Division acts as a "Product Unit" for third-party (non-Group) distribution networks that place Intesa Sanpaolo products while continuing to manage relations with their customers. As part of this initiative, the first partner identified is Poste Italiane and the first product under the partnership agreement concerns the mortgage range (Mutuo BancoPosta), whose market offering is aimed at retail customers. The Mutuo BancoPosta offering was launched for all Poste Italiane customers from October 2018. The launch of the offering relating to the “Prestito Personale” personal loan range is also planned starting from October. In this regard, the Intesa Sanpaolo operating structures provide support for the definition and formalisation of the processes for the new business model, as well as for the supply of IT services and operations.

Originate to Share
This project is structured in a four-year programme whose objective is to implement the Originate to Share (OtS) model for the Corporate and Investment Banking Division mainly based on: i) new processes that entail a significant change in approach compared to current practice to capture new business opportunities; and ii) an IT platform dedicated to OtS that is fully integrated with the other Group systems. The programme is organised into three successive waves (Banca IMI, Intesa Sanpaolo and the Foreign Network): following the enabling of OtS operations in Banca IMI in May, the framework was also enabled for Intesa Sanpaolo and the Foreign Network, while additional application evolutions are scheduled by the end of 2019.

Corporate simplification
As envisaged in the Business Plan, in the first half of 2019 the projects of merger into the Parent Company of Intesa Sanpaolo Group Services (legal effect from 21 January 2019), as well as of CR Firenze, CR Pistoia e Lucchesia and CR Bologna (legal effect from 25 February 2019) were completed, followed by Banca Prossima and Banca Apulia (legal effect from 27 May 2019). In this regard, the necessary support was provided for the success of the migrations to the Parent Company, especially with regard to the organisational aspect. Moreover, during the year the works were started for the merger of Mediocredito Italiano, while the workgroups for the migration of Banca IMI were concurrently launched.

New Credit Granting Programme
The project initiatives launched by the Group in the Credit sector, in line with the provisions of the Business Plan, included the establishment and implementation of a new Corporate process through the New Credit Granting Programme. In this regard, a Working Group has been set up, which has completed the initial “As-Is” phase of study and definition of the development guidelines and which, after having set up the Agile Work Team, has started an initial "room" for the definition of details of the credit capacity mechanism and the finalisation of the simplified revision process. Subsequently, additional “agile rooms” were set up on Credit Granting, Credit Workbench and Credit Application issues, which will be developed in the rest of 2019. The initial Credit Capacity and Simplified Revision functionalities were released in May, and are being extended to the entire Network. Upcoming releases are planned for December 2019, also on Credit Capacity and Simplified Revision.

People Care Project
With the aim of improving the quality of life in the company based on the needs of colleagues, in 2018 a project was launched to create a distinctive People Care Model within the Group. The initial phase was completed at the end of May 2019 with the launch of the Servizi alla Persona (Personal Services) section on #People. Intesa Sanpaolo employees can access a fine-tuned virtual catalogue of 295 personal services, organised by needs, with intuitive, easy-to-understand browsing, which focuses on the employee, not the service providers. To implement the People Care project, the personal services already provided by the various internal structures were surveyed and promoted, the initial phase of listening to employees through workshops and targeted qualitative interviews was completed, and a monitoring structure was set up of Italian and international companies on People Care systems.

BREXIT
The Brexit project was launched with the aim of defining and implementing an Action Plan in line with the strategy identified by the Group to adequately respond to the United Kingdom's exit from the European Union, ensuring full business continuity. In the second half of 2018 and the first half of 2019, the Project focused on implementing the (contingency and target) solutions identified in view of the UK’s exit from the EU, originally scheduled for 31 March 2019. In the current phase, the project involves the monitoring of the developments of the regulatory scenario, also through continuous interaction with European institutions and Supervisors, as well as continuing the target implementations and completing the fulfilment of the obligations set out in the action plans.

Digitisation of credit management under the Chief Lending Officer
In December 2018, a project was launched which aggregates the initiatives of digitisation of credit management under the CLO, to improve the management of non-performing loans and extend digitisation to the various credit environments and processes. In that context, dedicated rooms have been set up to define the application and process adjustments according to agile methodology, with specific regard to the digitisation of management of measures and value adjustments.

Product Governance
Over the last two years, the European Supervisory Authorities have issued new regulations on the governance and control of financial, banking and insurance products, both for producers and distributors, with the objective of increasing consumer protection through greater oversight of the design/development phase up to after-sales monitoring.
In this area, the Bank has launched the activities to align with the regulations, and has planned the start of a project that aims to complete the definition and formalisation of the implementing regulations of the Guidelines for the approval of new products, services and activities dedicated to specific target customers, define the requirements for developing a tool for automated process management and finalise/create after-sales monitoring dashboards for the various products.
The project activities will initially be limited to the Italian operations in the Banca dei Territori and Corporate and Investment Banking Divisions and, subsequently, will involve the Private Banking Division, the International Subsidiary Banks Division and the International Department of Corporate and Investment Banking.

New definition of "default" (DoD Project)
With letter dated 26 June 2018, the European Central Bank invited banks with validated models to move up the adoption of the new definition of default in relation to the deadline set by the EBA for the end of 2020. The regulation defines, in particular: i) the application of the definition of default pursuant to Article 178 of Regulation (EU) on prudential requirements for credit institutions and investment firms (CRR); and ii) the materiality threshold for past due transactions. To comply with the time frame imposed by the ECB, specific project activities were launched in the second half of 2018, of which the first phase entailed extensive structured gap analyses, which involved all the main functions of the Bank in a transversal manner. These activities identified the measures of adjustment to the new rules in the areas of IT, processes and regulations, which then, along with the qualitative and quantitative impact analyses and the planning of actions, were included in the Application Package, sent to the European Central Bank in December 2018. In 2019, the implementation phase of the actions planned continued and gained strength. In this phase, the internal Rules and Process Guidelines were sent to the Supervisor with the additions and changes due to the introduction of the new definition of default.
In compliance with the 2-step approach adopted by the Bank, the use of the new Definition of Default for financial and regulatory reporting (first step) will occur in the last quarter of 2019. The second step, i.e. the implementation in the internal credit risk models (Probability of Default, Loss Given Default and Exposure at Default) is planned starting from the end of 2020, in line with the date of entry into force of the EBA regulations and the plan to roll-out the internal models approved by the ECB.

Smart Lending
The project aims to define a mix of products/services that is better focused on the customer, to meet specific credit needs through a front-to-back digital process. In particular, a solution will be developed which leverages innovative (internal and external) customer data to close information gaps and the use of cutting-edge risk quantification algorithms (machine learning) to more accurately forecast credit risk.
This digital lending process will be capable of drastically reducing the time required (even to the point of immediate loans) through an automatic (or semi-automatic) engine. The project was launched in the last quarter of 2018 and has a long-term time horizon, envisaging gradual releases, consistent with the overall evolution of the technology/application framework of the Group in the area of loans.

Resolution Plan Project
The Bank Recovery and Resolution Directive requires that each financial institution subject to direct supervision by the European Central Bank (ECB) prepare a Recovery Plan and provide support to the Single Resolution Board (SRB) in drawing up a Resolution Plan. The objectives are:
- Ensuring the continuity of critical economic functions and avoiding adverse effects on the financial stability of the system, specifically by preventing contagion;
- Protecting public funds by minimising reliance on extraordinary public financial support and protecting depositors, through the Deposit Guarantee Scheme Directive (DGSD), and investors, through the Investor Compensation Scheme Directive (ICSD);
- Protecting the funds and assets of customers.

Having analysed the numerous, significant obligations set out, in order to best fulfil them, the Group has addressed these issues using a structured, project-based approach, also considering the significant interconnections among the various areas of analysis involved in the Resolution Plan. In this area, the first IT and process solutions have been released.

Half-yearly condensed consolidated Financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		30.06.2019	31.12.2018	Changes	
				amount	%
10.	Cash and cash equivalents	6,538	10,350	-3,812	-36.8
20.	Financial assets measured at fair value through profit or loss	53,359	42,115	11,244	26.7
	a) financial assets held for trading	*49,773*	*38,806*	*10,967*	*28.3*
	b) financial assets designated at fair value	*195*	*208*	*-13*	*-6.3*
	c) other financial assets mandatorily measured at fair value	*3,391*	*3,101*	*290*	*9.4*
30.	Financial assets measured at fair value through other comprehensive income	66,345	60,469	5,876	9.7
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	159,171	149,546	9,625	6.4
40.	Financial assets measured at amortised cost	491,435	476,503	14,932	3.1
	a) due from banks	*78,253*	*69,307*	*8,946*	*12.9*
	b) loans to customers	*413,182*	*407,196*	*5,986*	*1.5*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	568	952	-384	-40.3
50.	Hedging derivatives	3,384	2,993	391	13.1
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,892	124	1,768	
70.	Investments in associates and companies subject to joint control	1,071	943	128	13.6
80.	Technical insurance reserves reassured with third parties	24	20	4	20.0
90.	Property and equipment	8,822	7,372	1,450	19.7
100.	Intangible assets	9,028	9,077	-49	-0.5
	of which:				
	- goodwill	*4,163*	*4,163*	*-*	*-*
110.	Tax assets	16,120	17,253	-1,133	-6.6
	a) current	*2,374*	*3,320*	*-946*	*-28.5*
	b) deferred	*13,746*	*13,933*	*-187*	*-1.3*
120.	Non-current assets held for sale and discontinued operations	803	1,297	-494	-38.1
130.	Other assets	9,805	8,707	1,098	12.6
Total assets		**828,365**	**787,721**	**40,644**	**5.2**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2019	31.12.2018	Changes	
				amount	%
10.	Financial liabilities measured at amortised cost	533,203	513,775	19,428	3.8
	a) due to banks	*120,084*	*107,815*	*12,269*	*11.4*
	b) due to customers	*330,025*	*323,900*	*6,125*	*1.9*
	c) securities issued	*83,094*	*82,060*	*1,034*	*1.3*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	856	810	46	5.7
20.	Financial liabilities held for trading	51,187	41,895	9,292	22.2
30.	Financial liabilities designated at fair value	4	4	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,027	67,800	4,227	6.2
40.	Hedging derivatives	10,731	7,221	3,510	48.6
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	633	398	235	59.0
60.	Tax liabilities	2,056	2,433	-377	-15.5
	a) current	*312*	*163*	*149*	*91.4*
	b) deferred	*1,744*	*2,270*	*-526*	*-23.2*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	254	258	-4	-1.6
80.	Other liabilities	13,572	11,645	1,927	16.5
90.	Employee termination indemnities	1,203	1,190	13	1.1
100.	Allowances for risks and charges	4,057	5,064	-1,007	-19.9
	a) commitments and guarantees given	*450*	*510*	*-60*	*-11.8*
	b) post-employment benefits	*258*	*261*	*-3*	*-1.1*
	c) other allowances for risks and charges	*3,349*	*4,293*	*-944*	*-22.0*
110.	Technical reserves	84,710	80,797	3,913	4.8
120.	Valuation reserves	-474	-913	-439	-48.1
125.	Valuation reserves pertaining to insurance companies	322	9	313	
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,230	13,006	224	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 (-)	-72	-84	-12	-14.3
190.	Minority interests (+/-)	337	407	-70	-17.2
200.	Net income (loss) (+/-)	2,266	4,050	-1,784	-44.0
Total liabilities and shareholders' equity		**828,365**	**787,721**	**40,644**	**5.2**

Consolidated income statement

(millions of euro)

		30.06.2019	30.06.2018	Changes amount	Changes %
10.	Interest and similar income	5,141	5,244	-103	-2.0
	of which: interest income calculated using the effective interest rate method	*5,309*	*5,177*	*132*	*2.5*
20.	Interest and similar expense	-1,661	-1,516	145	9.6
30.	**Interest margin**	**3,480**	**3,728**	**-248**	**-6.7**
40.	Fee and commission income	4,803	4,978	-175	-3.5
50.	Fee and commission expense	-1,164	-1,152	12	1.0
60.	**Net fee and commission income**	**3,639**	**3,826**	**-187**	**-4.9**
70.	Dividend and similar income	81	67	14	20.9
80.	Profits (Losses) on trading	317	290	27	9.3
90.	Fair value adjustments in hedge accounting	-39	-18	21	
100.	Profits (Losses) on disposal or repurchase of:	814	417	397	95.2
	a) financial assets measured at amortised cost	*90*	*-28*	*118*	
	b) financial assets measured at fair value through other comprehensive income	*628*	*416*	*212*	*51.0*
	c) financial liabilities	*96*	*29*	*67*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	15	264	-249	-94.3
	a) financial assets and liabilities designated at fair value	*-70*	*2*	*-72*	
	b) other financial assets mandatorily measured at fair value	*85*	*262*	*-177*	*-67.6*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	2,009	1,791	218	12.2
120.	**Net interest and other banking income**	**10,316**	**10,365**	**-49**	**-0.5**
130.	Net losses/recoveries for credit risks associated with:	-1,005	-1,236	-231	-18.7
	a) financial assets measured at amortised cost	*-990*	*-1,233*	*-243*	*-19.7*
	b) financial assets measured at fair value through other comprehensive income	*-15*	*-3*	*12*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-4	-8	-4	-50.0
140.	Profits (Losses) on changes in contracts without derecognition	-2	-5	-3	-60.0
150.	**Net income from banking activities**	**9,305**	**9,116**	**189**	**2.1**
160.	Net insurance premiums	4,763	3,406	1,357	39.8
170.	Other net insurance income (expense)	-6,086	-4,419	1,667	37.7
180.	**Net income from banking and insurance activities**	**7,982**	**8,103**	**-121**	**-1.5**
190.	Administrative expenses:	-4,747	-4,917	-170	-3.5
	a) personnel expenses	*-2,830*	*-2,918*	*-88*	*-3.0*
	b) other administrative expenses	*-1,917*	*-1,999*	*-82*	*-4.1*
200.	Net provisions for risks and charges	-2	-30	-28	-93.3
	a) commitments and guarantees given	*39*	*68*	*-29*	*-42.6*
	b) other net provisions	*-41*	*-98*	*-57*	*-58.2*
210.	Net adjustments to / recoveries on property and equipment	-259	-181	78	43.1
220.	Net adjustments to / recoveries on intangible assets	-325	-274	51	18.6
230.	Other operating expenses (income)	420	391	29	7.4
240.	**Operating expenses**	**-4,913**	**-5,011**	**-98**	**-2.0**
250.	Profits (Losses) on investments in associates and companies subject to joint control	27	20	7	35.0
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	1	-	1	
290.	**Income (Loss) before tax from continuing operations**	**3,097**	**3,112**	**-15**	**-0.5**
300.	Taxes on income from continuing operations	-832	-916	-84	-9.2
310.	**Income (Loss) after tax from continuing operations**	**2,265**	**2,196**	**69**	**3.1**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**2,265**	**2,196**	**69**	**3.1**
340.	Minority interests	1	-17	18	
350.	**Parent Company's net income (loss)**	**2,266**	**2,179**	**87**	**4.0**
	Basic EPS - Euro	**0.13**	**0.13**		
	Diluted EPS - Euro	**0.13**	**0.13**		

Statement of consolidated comprehensive income

(millions of euro)

		30.06.2019	30.06.2018	Changes amount	Changes %
10.	**Net income (Loss)**	**2,265**	**2,196**	**69**	**3.1**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**187**	**23**	**164**	
20.	Equity instruments designated at fair value through other comprehensive income	16	19	-3	-15.8
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	233	6	227	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	-62	-2	60	
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	**541**	**-923**	**1,464**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	46	-20	66	
120.	Cash flow hedges	-167	52	-219	
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	357	-550	907	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	304	-411	715	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	1	6	-5	-83.3
170.	**Total other comprehensive income (net of tax)**	**728**	**-900**	**1,628**	
180.	**Total comprehensive income (captions 10 + 170)**	**2,993**	**1,296**	**1,697**	
190.	**Total consolidated comprehensive income pertaining to minority interests**	**-25**	**22**	**-47**	
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**3,018**	**1,274**	**1,744**	

Changes in consolidated shareholders’ equity as at 30 June 2019

(millions of euro)

	30.06.2019												
	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	-270	44						80	80	-
Operations on shareholders' equity													
Issue of new shares									12		12	12	-
Purchase of treasury shares											-	-	-
Dividends											-	-	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-13		-1	-138							-152	-136	-16
Total comprehensive income for the period						415	313			2,265	2,993	3,018	-25
SHAREHOLDERS’ EQUITY AS AT 30.06.2019	**9,460**	**-**	**25,094**	**12,643**	**622**	**-565**	**322**	**4,103**	**-72**	**2,265**	**53,872**	**53,535**	**337**
- Group	**9,086**	**-**	**25,074**	**12,608**	**622**	**-474**	**322**	**4,103**	**-72**	**2,266**	**53,535**		
- minority interests	**374**	**-**	**20**	**35**	**-**	**-91**	**-**	**-**	**-**	**-1**	**337**		

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

Changes in consolidated shareholders' equity as at 30 June 2018

(millions of euro)

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

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

Consolidated statement of cash flows

(millions of euro)

	30.06.2019	30.06.2018
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**4,330**	**2,313**
Net income (loss) (+/-)	2,265	2,196
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	439	95
Gains/losses on financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-1,956	-131
Gains/losses on hedging activities (-/+)	39	18
Gains/losses on hedging activities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	1,253	1,546
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	583	455
Net provisions for risks and charges and other costs/revenues (+/-)	2	70
Net insurance premiums to be collected (-)	-	14
Other insurance revenues/charges to be collected (-/+)	2,531	-406
Taxes, duties and tax credits to be paid/collected(+/-)	-42	492
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
Other adjustments (+/-)	-784	-2,036
2. Cash flow from / used in financial assets	**-36,202**	**-4,635**
Financial assets held for trading	-9,827	-262
Financial assets designated at fair value	14	25
Other financial assets mandatorily measured at fair value	-204	327
Financial assets measured at fair value through other comprehensive income	-4,688	-2,057
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-3,898	-806
Financial assets measured at amortised cost	-15,533	-3,317
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	384	-273
Other assets	-2,450	1,728
3. Cash flow from / used in financial liabilities (*)	**32,114**	**4,002**
Financial liabilities measured at amortised cost	17,933	5,728
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	37	101
Financial liabilities held for trading	8,468	-1,679
Financial liabilities designated at fair value	-71	-17
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-28	3,562
Other liabilities	5,775	-3,693
Net cash flow from (used in) operating activities	**242**	**1,680**
B. INVESTING ACTIVITIES		
1. Cash flow from	**9**	**16**
Sales of investments in associates and companies subject to joint control	-	5
Dividends collected on investments in associates and companies subject to joint control	9	11
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-480**	**-562**
Purchases of investments in associates and companies subject to joint control	-100	-
Purchases of property and equipment	-104	-69
Purchases of intangible assets	-276	-247
Purchases of subsidiaries and business branches	-	-246
Net cash flow from (used in) investing activities	**-471**	**-546**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	12	6
Share capital increases	-101	-107
Dividend distribution and other	-3,492	-3,447
Disposal/acquisition of minority interests in subsidiaries	-14	-25
Net cash flow from (used in) financing activities	**-3,595**	**-3,573**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-3,824**	**-2,439**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	10,350	9,353
Net increase (decrease) in cash and cash equivalents	-3,824	-2,439
Cash and cash equivalents: foreign exchange effect	12	14
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,538**	**6,928**

LEGEND: (+) from (–) used in

(*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to +32.1 billion euro (cash flow from financing activities) and comprise +28.7 billion euro in cash flows, +6.4 billion euro in fair value changes and -3 billion euro in other changes.

Explanatory notes

Accounting policies

General preparation principles

The Half-yearly condensed consolidated financial statements as at 30 June 2019 have been prepared in compliance with the requirements of art. 154-ter of Legislative Decree 58 of 24 February 1998. Moreover, they have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission and in force as at 30 June 2019, as provided for by EU Regulation 1606 of 19 July 2002.
In particular, the Half-yearly condensed consolidated financial statements have been prepared in compliance with IAS 34 requirements, which regulate interim financial reporting.

The accounting standards adopted in preparation of these Half-yearly condensed consolidated financial statements, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have 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.
These half-yearly consolidated financial statements provide 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 Half-yearly condensed consolidated financial statements, drawn up in euro as the functional currency, are prepared in condensed form as permitted by IAS 34, and contain the consolidated Balance sheet, the consolidated Income statement, the Statement of consolidated comprehensive income for the period, the Changes in consolidated shareholders' equity, the consolidated Statement of cash flows and the explanatory notes. They are also complemented by information on significant events which occurred in the period, on the main risks and uncertainties to be faced in the remaining months of the year, as well as information on significant related party transactions.
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 June 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 to enable like-for-like comparison.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the Half-yearly financial statements as at 30 June 2018 and in the 2018 Annual Report, together with specific reconciliations between these and the reclassified statements.

Turning to discontinued operations, as stated above in the Executive summary chapter of this Report, the first sell-back of high-risk loans deriving from the Venetian banks in compulsory administrative liquidation was launched on 11 May 2019, following notification to 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. The high-risk positions reclassified as "bad loans" and/or "unlikely to pay loans" were sold back for 456 million euro, calculated per the contract on the basis of the gross carrying value of the reclassified high-risk loans, less (i) provisions at the date of execution and (ii) 50% of the impairment losses which under IAS/IFRS the Intesa Sanpaolo Group would have recognised had the Banks in compulsory administrative liquidation not had the obligation to purchase. Since the Intesa Sanpaolo Group had already reclassified the loans in question as discontinued operations at a carrying amount consistent with the above consideration, no differences between the net value of the loans sold and their sell-back price emerged.
As at 30 June 2019, discontinued operations include the residual high-risk loans classified in the interim as "bad loans" and/or "unlikely-to-pay loans" and to be sold back by the end of 2019. Just as for the positions already sold back, impairment losses have been calculated on the basis of the sell-back price according to the contractual agreements.
The caption also includes credit exposures that are the subject of 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.

The Half-yearly condensed consolidated financial statements as at 30 June 2019 are complemented by certification of the Managing Director – CEO and the Manager responsible for preparing the Company's financial reports pursuant to Article 154-bis of the Consolidated Law on Finance and are subject to limited review by the Independent Auditors KPMG.

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 any 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 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 Half-yearly Report includes Intesa Sanpaolo and the companies that it directly and indirectly controls, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors different from that of the Parent Company and private equity investments. Similarly, structured entities are included when the requisite of effective control recurs, even if there is no stake in the company.
Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the scope of consolidation and are classified based on the provisions of IFRS 9, since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests. Equity investments held, directly or through funds, in companies involved in the venture capital business are also excluded from the line-by-line scope of consolidation.
These equity investments are included in the category of Financial assets measured at fair value through profit or loss. Companies for which the shares have been received as pledges with voting rights exceeding 20% are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.

Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A., 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 this document refer to 30 June 2019. In certain limited cases, for subsidiaries which are not material, the latest official figures are used.
Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of non-Eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

The following table lists the companies included in the line-by-line scope of consolidation as at 30 June 2019.

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
1	Argentea Gestioni S.c.p.a.(c) Capital 120,000 euro	Brescia	Brescia	1	Autostrade Lombarde	63.35	
2	Autostrade Lombarde (c) Capital 467,726,626 euro	Brescia	Brescia	1	Intesa Sanpaolo	55.78	
3	Banca 5 S.p.A. (formerly Banca ITB S.p.A.) Capital 30,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
4	Banca Comerciala Eximbank S.A. Capital MDL 1,250,000,000	Chișinău	Chișinău	1	Intesa Sanpaolo	100.00	
5	Banca IMI S.p.A. Capital 962,464,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
6	Banca Imi Securities Corp Capital USD 44,500,000	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
7	Banca Intesa AD Beograd Capital RSD 21,315,900,000	Novi Beograd	Novi Beograd	1	Intesa Sanpaolo Holding International	100.00	
8	Banca Intesa Joint-Stock Company Capital RUB 10,820,180,800	Moscow	Moscow	1	Intesa Sanpaolo Holding International	53.02	
					Intesa Sanpaolo	46.98	
						100.00	
9	Bank of Alexandria S.A.E. (d) Capital EGP 800,000,000	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
10	Banka Intesa Sanpaolo d.d (formerly Banka Koper d.d.) (e) Capital 22,173,218 euro	Koper	Koper	1	Intesa Sanpaolo	48.13	
					Privredna Banka Zagreb d.d.	51.00	
						99.13	
11	Cib Bank Ltd Capital HUF 50,000,000,003	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
12	CIB Factor Financial Services Ltd in voluntary liquidation Capital HUF 50,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
13	CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
14	CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost A.S.	100.00	
15	CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
16	CIB Rent Operative Leasing Ltd Capital HUF 5,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
17	Compagnia Italiana Finanziaria - CIF S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
18	Consumer Finance Holding Ceska Republika a.s. Capital CZK 213,900,000	Prague	Prague	1	Vseobecna Uverova Banka A.S.	100.00	
19	Duomo Funding Plc (f)	Dublin	Dublin	2	Intesa Sanpaolo	-	
20	Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR	100.00	
21	Etoile Actualis S.a.r.l. Capital 8,665 euro	Paris	Paris	1	Risanamento Europa	100.00	
22	Etoile François Premier S.a.r.l. Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
23	Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
24	Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
25	Eurizon Slj Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	
26	Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
27	Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
28	Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
29	Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
30	Fideuram Vita S.p.A. Capital 357,446,836 euro	Roma	Roma	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking	80.01 19.99 100.00	
31	Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
32	IMI Capital Markets USA Corp. Capital USD 5,000	New York	New York	1	IMI Investments	100.00	
33	IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
34	Immobiliare Cascina Rubina S.r.l.(c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
35	IN.FRA - Investire nelle Infrastrutture S.r.l. (formerly IN.FRA - Investire nelle Infrastrutture S.p.A.) Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
36	Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
37	Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
38	Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
39	Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
40	Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
41	Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
42	Intesa Sanpaolo Bank Luxembourg S.A. Capital 1,389,370,555 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
43	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
44	Intesa Sanpaolo Brasil S.A. - Banco Multiplo Capital BRL 314,922,234	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.90 0.10 100.00	
45	Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC) Capital USD 25,000	New York	Wilmington	1	Intesa Sanpaolo	100.00	
46	Intesa Sanpaolo Harbourmaster III S.A. Capital 5,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
47	Intesa Sanpaolo Holding International S.A. Capital 2,157,957,270 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
48	Intesa Sanpaolo Innovation Center S.c.p.a (formerly Servizi bancari S.c.p.a.) Capital 9,254,940 euro	Vicenza	Torino	1	Intesa Sanpaolo Banca Imi Intesa Sanpaolo Vita	99.98 0.01 0.01 100.00	
49	Intesa Sanpaolo Life DAC (formerly Intesa Sanpaolo Life Ltd) Capital 625,000 euro	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
50	Intesa Sanpaolo Private Bank (Suisse) Morval S.A. (g) Capital 20,000,000 euro	Geneva	Geneva	1	Fideuram - Intesa Sanpaolo Private Banking	95.79	
51	Intesa Sanpaolo Private Banking S.p.A. Capital 105,497,424 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
52	Intesa Sanpaolo Provis S.p.A. Capital 6,025,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
53	Intesa Sanpaolo RE.O.CO. S.p.A. Capital 13,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
54	Intesa Sanpaolo Romania S.A. Commercial Bank Capital RON 1,156,639,410	Bucharest	Bucharest	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.73 0.27 100.00	
55	Intesa Sanpaolo Sec S.A. Capital 31,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
56	Intesa Sanpaolo Servitia S.A. Capital 1,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
57	Intesa Sanpaolo Smart Care S.r.l. Capital 1,633,000 euro	Torino	Torino	1	Intesa Sanpaolo Intesa Sanpaolo Vita	51.01 48.99 100.00	
58	Intesa Sanpaolo Vita S.p.A. Capital 320,422,508 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	
59	ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
60	ISP CB Pubblico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
61	ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
62	Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	
63	Mediocredito Italiano S.p.A. Capital 992,043,495 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
64	Milano Santa Giulia S.p.A. (c) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	
65	Morval Bank & Trust Cayman Ltd Capital 7,850,000 euro	George Town	George Town	1	Morval Vonwiller Asset Management Co Ltd	100.00	
66	Morval Vonwiller Asset Management Co Ltd Capital 2,400,000 euro	Tortola	Tortola	1	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	100.00	
67	MSG Comparto Quarto S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
68	MSG Comparto Secondo S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
69	MSG Comparto Terzo S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
70	MSG Residenze S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	
71	Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo Innovation Center	100.00	
72	PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
73	PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Vub Asset Management Spravcovska Spolocnost	100.00	
74	PBZ Leasing d.o.o. Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
75	PBZ Nekretnine d.o.o. Capital HRK 3,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
76	PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
77	Pravex Bank Public Joint-Stock Company Commercial Bank Capital UAH 979,089,724	Kiev	Kiev	1	Intesa Sanpaolo	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
78	Private Equity International S.A. (h) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	94.39	100.00
79	Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
80	Qingdao Yicai Wealth Management Co. Ltd. Capital CNY 371,000,000	Qingdao	Qingdao	1	Intesa Sanpaolo	100.00	
81	Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	
82	Ri. Rental S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
83	Risanamento Europa S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
84	Risanamento S.p.A. (c) Capital 197,951,784 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
85	Romulus Funding Corporation (f)	New York	New York	2	Intesa Sanpaolo	-	
86	Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
87	Società di Progetto Autostrada diretta Brescia Milano S.p.A. (c) Capital 113,336,332 euro	Brescia	Brescia	1	Intesa Sanpaolo Autostrade Lombarde	0.05 81.69 81.74	
88	Società Italiana di Revisione e Fiduciaria – S.I.RE.F. S.p.A. Capital 2,600,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
89	Sviluppo Comparto 3 S.r.l.(c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
90	Trade Receivables Investment Vehicle Sarl (f)	Luxembourg	Luxembourg	2	Banca IMI		
91	Vseobecna Uverova Banka a.s. Capital 430,819,064 euro	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
92	VUB Asset Management Sprav. Spol a.s. Capital 4,093,560 euro	Bratislava	Bratislava	1	Eurizon Capital	100.00	
93	VUB Leasing a.s. Capital 16,600,000 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	

(a) Type of relationship:
1 - majority of voting rights at Ordinary Shareholders' Meeting;
2 - other forms of control.

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

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

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

(e) Minority shareholders are subject to a legal commitment to purchase the remaining 0.87% of share capital.

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

(g) Please note that there are put and call option agreements on 4.21% of share capital held by minority shareholders.

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

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

The accounting standards adopted in preparation of this Half-yearly consolidated financial statements, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have 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 essentially deriving from the mandatory application, from 1 January 2019, of the new IFRS 16 “Leases”. Details of the main updated captions 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 have been 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.

Subsequent events

No significant events occurred after the end of the half year.

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, following the 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, has been reclassified, along with net premiums and the balance of income and expenses from insurance business, to the specific item Income from insurance business, to which the effect of the adjustment of the technical reserve has also been attributed, in respect of the component borne by the insured parties, relating to the impairment of the securities held in the portfolios of the Group's insurance companies;
- differentials on derivatives, classified to the trading 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)

	30.06.2019	30.06.2018	Changes	
			amount	%
Net interest income	3,517	3,691	-174	-4.7
Net fee and commission income	3,875	4,042	-167	-4.1
Income from insurance business	575	575	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,090	1,057	33	3.1
Other operating income (expenses)	9	55	-46	-83.6
Operating income	**9,066**	**9,420**	**-354**	**-3.8**
Personnel expenses	-2,805	-2,879	-74	-2.6
Other administrative expenses	-1,153	-1,229	-76	-6.2
Adjustments to property, equipment and intangible assets	-512	-511	1	0.2
Operating costs	**-4,470**	**-4,619**	**-149**	**-3.2**
Operating margin	**4,596**	**4,801**	**-205**	**-4.3**
Net adjustments to loans	-923	-1,177	-254	-21.6
Other net provisions and net impairment losses on other assets	-67	-86	-19	-22.1
Other income (expenses)	7	1	6	
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**3,613**	**3,539**	**74**	**2.1**
Taxes on income	-985	-1,045	-60	-5.7
Charges (net of tax) for integration and exit incentives	-52	-35	17	48.6
Effect of purchase price allocation (net of tax)	-69	-70	-1	-1.4
Levies and other charges concerning the banking industry (net of tax)	-242	-219	23	10.5
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	1	9	-8	-88.9
Net income (loss)	**2,266**	**2,179**	**87**	**4.0**

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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,761	1,756	1,736	1,844	1,838	1,853
Net fee and commission income	1,989	1,886	2,029	1,959	2,015	2,027
Income from insurance business	284	291	238	271	281	294
Profits (Losses) on financial assets and liabilities designated at fair value	633	457	204	208	448	609
Other operating income (expenses)	10	-1	-11	-11	25	30
Operating income	**4,677**	**4,389**	**4,196**	**4,271**	**4,607**	**4,813**
Personnel expenses	-1,418	-1,387	-1,519	-1,415	-1,447	-1,432
Other administrative expenses	-596	-557	-753	-637	-609	-620
Adjustments to property, equipment and intangible assets	-252	-260	-287	-259	-254	-257
Operating costs	**-2,266**	**-2,204**	**-2,559**	**-2,311**	**-2,310**	**-2,309**
Operating margin	**2,411**	**2,185**	**1,637**	**1,960**	**2,297**	**2,504**
Net adjustments to loans	-554	-369	-698	-519	-694	-483
Other net provisions and net impairment losses on other assets	-37	-30	-76	-25	-35	-51
Other income (expenses)	1	6	507	-2	3	-2
Income (Loss) from discontinued operations	-	-	-	-	-1	1
Gross income (loss)	**1,821**	**1,792**	**1,370**	**1,414**	**1,570**	**1,969**
Taxes on income	-449	-536	-173	-432	-504	-541
Charges (net of tax) for integration and exit incentives	-30	-22	-54	-31	-16	-19
Effect of purchase price allocation (net of tax)	-29	-40	-49	-38	-26	-44
Levies and other charges concerning the banking industry (net of tax)	-96	-146	-69	-90	-93	-126
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Minority interests	-1	2	13	10	-4	13
Net income (loss)	**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 9,066 million euro, down by 3.8% on the first half of 2018, due to the decrease in net interest income and net fee and commission income, and to a lesser extent, other operating income, whereas profits (losses) on financial assets and liabilities designated at fair value increased.

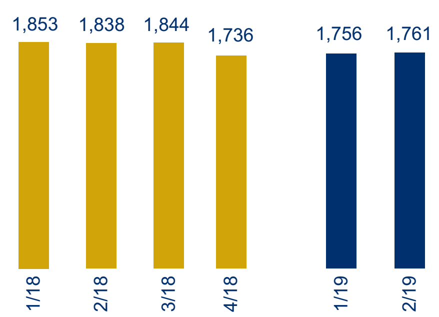
Net interest income

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Relations with customers	3,713	3,847	-134	-3.5
Securities issued	-1,052	-1,245	-193	-15.5
Customer dealing	**2,661**	**2,602**	**59**	**2.3**
Instruments measured at amortised cost which do not constitute loans	172	127	45	35.4
Other financial assets and liabilities designated at fair value through profit or loss	57	42	15	35.7
Other financial assets designated at fair value through other comprehensive income	436	305	131	43.0
Financial assets and liabilities	**665**	**474**	**191**	**40.3**
Relations with banks	**32**	**48**	**-16**	**-33.3**
Differentials on hedging derivatives	**-340**	**-83**	**257**	
Non-performing assets	**453**	**620**	**-167**	**-26.9**
Other net interest income	**46**	**30**	**16**	**53.3**
Net interest income	**3,517**	**3,691**	**-174**	**-4.7**

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 was 3,517 million euro, down by 4.7% on the first six months of 2018. Against the backdrop of interest rates which remain at historical lows, performance was conditioned by the asset size effect attributable to lower average loans, lower interest on non-performing assets due to the reduction of NPLs and the more limited contribution of hedging of core deposits. Net interest income on customer dealing increased to 2,661 million euro (+2.3%), driven by the decrease in the cost of funding in the form of securities issued and by higher interest on financial assets of 665 million euro (+40.3%). However, these effects were offset by the negative impact of the aforementioned differentials on hedging derivatives and lower interest on non-performing assets and on relations with banks, in view of the increase in the negative balance from June 2018 to June 2019.

(millions of euro)

	2019		Changes	
	Second quarter	First quarter	amount	%
Relations with customers	1,837	1,876	-39	-2.1
Securities issued	-515	-537	-22	-4.1
Customer dealing	**1,322**	**1,339**	**-17**	**-1.3**
Instruments measured at amortised cost which do not constitute loans	92	80	12	15.0
Other financial assets and liabilities designated at fair value through profit or loss	26	31	-5	-16.1
Other financial assets designated at fair value through other comprehensive income	223	213	10	4.7
Financial assets and liabilities	**341**	**324**	**17**	**5.2**
Relations with banks	**16**	**16**	-	-
Differentials on hedging derivatives	**-175**	**-165**	10	6.1
Non-performing assets	**230**	**223**	7	3.1
Other net interest income	**27**	**19**	8	42.1
Net interest income	**1,761**	**1,756**	**5**	**0.3**

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

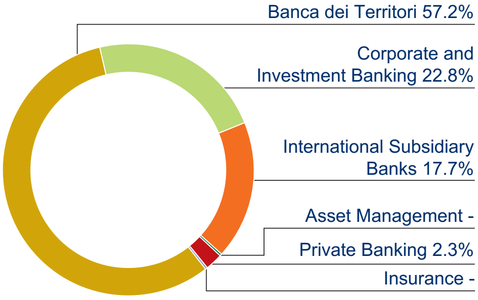
Net interest income in the second quarter of 2019 was essentially in line with the first quarter of the current year.

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Banca dei Territori	2,194	2,345	-151	-6.4
Corporate and Investment Banking	874	816	58	7.1
International Subsidiary Banks	679	641	38	5.9
Private Banking	89	76	13	17.1
Asset Management	-	-	-	-
Insurance	-	-	-	-
Total business areas	**3,836**	**3,878**	**-42**	**-1.1**
Corporate Centre	-319	-187	132	70.6
Intesa Sanpaolo Group	**3,517**	**3,691**	**-174**	**-4.7**

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 approximately 60% of business area results, recorded a decrease (-6.4% or -151 million euro) in net interest income owing to the lesser contribution from 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 (+7.1%, or +58 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 (+5.9%, or +38 million euro) and, finally, for the Private Banking Division (+17.1%, or +13 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.

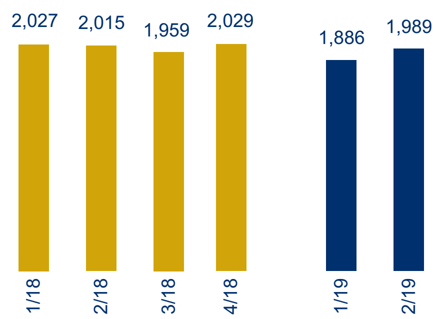
Net fee and commission income

(millions of euro)

	30.06.2019			30.06.2018			Changes	
	Income	Expense	**Net**	Income	Expense	**Net**	**amount**	**%**
Guarantees given / received	170	-59	111	187	-55	132	-21	-15.9
Collection and payment services	335	-106	229	320	-111	209	20	9.6
Current accounts	614	-	614	632	-	632	-18	-2.8
Credit and debit cards	525	-300	225	476	-275	201	24	11.9
Commercial banking activities	**1,644**	**-465**	**1,179**	**1,615**	**-441**	**1,174**	**5**	**0.4**
Dealing and placement of securities	466	-91	375	550	-114	436	-61	-14.0
Currency dealing	26	-2	24	26	-1	25	-1	-4.0
Portfolio management	1,464	-361	1,103	1,519	-354	1,165	-62	-5.3
Distribution of insurance products	687	-	687	756	-	756	-69	-9.1
Other	125	-24	101	116	-21	95	6	6.3
Management, dealing and consultancy activities	**2,768**	**-478**	**2,290**	**2,967**	**-490**	**2,477**	**-187**	**-7.5**
Other fee and commission	**499**	**-93**	**406**	**512**	**-121**	**391**	**15**	**3.8**
Total	**4,911**	**-1,036**	**3,875**	**5,094**	**-1,052**	**4,042**	**-167**	**-4.1**

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 six months of 2019, which makes up approximately 43% of operating income, came to 3,875 million euro, down by 4.1% compared to the same period in 2018 owing to the lesser contribution of management, dealing and financial consultancy activities. Specifically, there were decreases in fee and commission income on portfolio management schemes (-5.3%), in the distribution of insurance products (-9.1%) and in the dealing and placement of securities (-14%), which nevertheless showed signs of recovery in the second quarter of the current year.
On the contrary, fee and commission income on traditional banking business was robust, with increases in collection and payment services and credit cards, as was other fee and commission income, particularly that on loans granted.

(millions of euro)

	2019		Changes	
	Second quarter	First quarter	amount	%
Guarantees given / received	56	55	1	1.8
Collection and payment services	119	110	9	8.2
Current accounts	306	308	-2	-0.6
Credit and debit cards	118	107	11	10.3
Commercial banking activities	**599**	**580**	**19**	**3.3**
Dealing and placement of securities	195	180	15	8.3
Currency dealing	12	12	-	-
Portfolio management	561	542	19	3.5
Distribution of insurance products	361	326	35	10.7
Other	51	50	1	2.0
Management, dealing and consultancy activities	**1,180**	**1,110**	**70**	**6.3**
Other net fee and commission income	**210**	**196**	**14**	**7.1**
Net fee and commission income	**1,989**	**1,886**	**103**	**5.5**

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

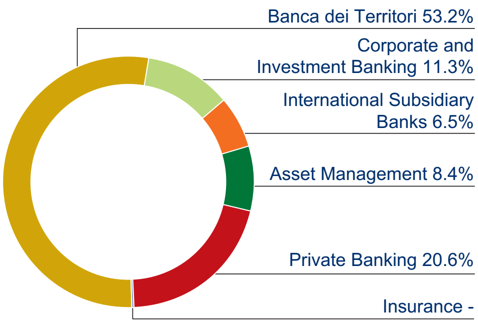
At the quarterly level, fee and commission income recovered on the previous quarter to not far from the average performances achieved in all 2018, primarily due to the greater fee and commission income on management, dealing and financial consultancy.

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Banca dei Territori	2,173	2,322	-149	-6.4
Corporate and Investment Banking	463	473	-10	-2.1
International Subsidiary Banks	264	259	5	1.9
Private Banking	843	856	-13	-1.5
Asset Management	342	360	-18	-5.0
Insurance	-	-	-	-
Total business areas	**4,085**	**4,270**	**-185**	**-4.3**
Corporate Centre	-210	-228	-18	-7.9
Intesa Sanpaolo Group	**3,875**	**4,042**	**-167**	**-4.1**

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 (-6.4%, or -149 million euro) in fee and commission income, specifically that deriving from asset management and bancassurance. A decrease was also registered in Corporate and Investment Banking (-2.1%, or -10 million euro), mainly due to the performance of the commercial banking segment, Asset Management (-5%, or -18 million euro) and Private Banking (-1.5%, or -13 million euro). By contrast, the fee and commission income of the International Subsidiary Banks recorded growth (+1.9% or +5 million euro).

In application of IFRS 15, which requires a breakdown of revenues from contracts with customers (except for revenues from lease contracts, insurance contracts and financial instruments), a breakdown of fee and commission income and expense by business area is provided below.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (a)	Total 30.06.2019	Total 30.06.2018	Changes	
										amount	%
Guarantees given	42	112	18	1	-	-	-3	170	187	-17	-9.1
Collection and payment services	201	41	87	4	-	-	2	335	320	15	4.7
Current accounts	535	15	60	4	-	-	-	614	632	-18	-2.8
Credit and debit cards	301	88	116	4	-	-	16	525	476	49	10.3
Commercial banking activities	**1,079**	**256**	**281**	**13**	**-**	**-**	**15**	**1,644**	**1,615**	**29**	**1.8**
Dealing and placement of securities	576	253	12	101	125	-	-601	466	550	-84	-15.3
Currency dealing	19	3	2	1	-	-	1	26	26	-	-
Portfolio management	62	5	8	729	782	-	-122	1,464	1,519	-55	-3.6
Distribution of insurance products	391	-	9	287	-	-	-	687	756	-69	-9.1
Other	14	21	5	81	-	-	4	125	116	9	7.8
Management, dealing and consultancy activities	**1,062**	**282**	**36**	**1,199**	**907**	**-**	**-718**	**2,768**	**2,967**	**-199**	**-6.7**
Other net fee and commission income	**205**	**162**	**32**	**15**	**54**	**-**	**31**	**499**	**512**	**-13**	**-2.5**
Fee and commission income	**2,346**	**700**	**349**	**1,227**	**961**	**-**	**-672**	**4,911**	**5,094**	**-183**	**-3.6**
Fee and commission expense	**-173**	**-237**	**-85**	**-384**	**-619**	**-**	**462**	**-1,036**	**-1,052**	**-16**	**-1.5**
Net fee and commission income	**2,173**	**463**	**264**	**843**	**342**	**-**	**-210**	**3,875**	**4,042**	**-167**	**-4.1**

(a) The Corporate Centre has been attributed the intersector netting.

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

Income from insurance business

(millions of euro)

Captions (a)	30.06.2019			30.06.2018			Changes	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**73**	**76**	**149**	**85**	**58**	**143**	**6**	**4.2**
Net insurance premiums (b)	4,522	241	4,763	3,211	195	3,406	1,357	39.8
Net charges for insurance claims and surrenders (c)	-3,482	-73	-3,555	-4,774	-50	-4,824	-1,269	-26.3
Net charges for changes in technical reserves (d)	-1,820	-1	-1,821	1,079	-	1,079	-2,900	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	929	-	929	658	-	658	271	41.2
Net fees on investment contracts (f)	156	-	156	161	-	161	-5	-3.1
Commission expenses on insurance contracts (g)	-239	-67	-306	-246	-59	-305	1	0.3
Other technical income and expense (h)	7	-24	-17	-4	-28	-32	-15	-46.9
Net investment result	**395**	**3**	**398**	**472**	**11**	**483**	**-85**	**-17.6**
Operating income from investments	6,249	3	6,252	283	11	294	5,958	
Net interest income	*871*	*2*	*873*	*896*	*1*	*897*	*-24*	*-2.7*
Dividends	*139*	*2*	*141*	*134*	*2*	*136*	*5*	*3.7*
Gains/losses on disposal	*786*	*-1*	*785*	*598*	*8*	*606*	*179*	*29.5*
Valuation gains/losses	*4,490*	*-*	*4,490*	*-1,309*	*-*	*-1,309*	*5,799*	
Portfolio management fees paid (i)	*-37*	*-*	*-37*	*-36*	*-*	*-36*	*1*	*2.8*
Gains (losses) on investments pertaining to insured parties	-5,854	-	-5,854	189	-	189	-6,043	
Insurance products (j)	*-974*	*-*	*-974*	*-596*	*-*	*-596*	*378*	*63.4*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*20*	*-*	*20*	*-63*	*-*	*-63*	*83*	
Investment products (l)	*-4,900*	*-*	*-4,900*	*848*	*-*	*848*	*-5,748*	
Income from insurance business gross of consolidation effects	**468**	**79**	**547**	**557**	**69**	**626**	**-79**	**-12.6**
Consolidation effects	28	-	28	-51	-	-51	79	
Income from insurance business	**496**	**79**	**575**	**506**	**69**	**575**	**-**	**-**

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

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

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

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

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

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

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

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

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

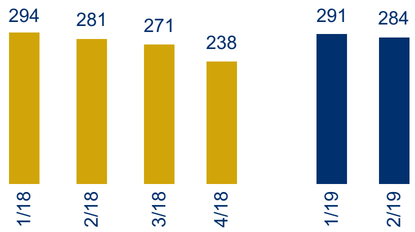
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

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

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

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

Quarterly development
Income from insurance business
(millions of euro)



During the first half of 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, recorded stability in net revenues at the 575 million euro recorded in the same period of 2018.
The decrease in the net investment result, driven by the greater retrocession of the returns on investments to policyholders, was accompanied by sound stability of the technical margin of the non-life business.

(millions of euro)

Captions (a)	2019		Changes	
	Second quarter	First quarter	amount	%
Technical margin	**89**	**60**	**29**	**48.3**
Net insurance premiums (b)	2,258	2,505	-247	-9.9
Net charges for insurance claims and surrenders (c)	-1,667	-1,888	-221	-11.7
Net charges for changes in technical reserves (d)	-788	-1,033	-245	-23.7
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	364	565	-201	-35.6
Net fees on investment contracts (f)	59	97	-38	-39.2
Commission expenses on insurance contracts (g)	-139	-167	-28	-16.8
Other technical income and expense (h)	2	-19	21	
Net investment result	**192**	**206**	**-14**	**-6.8**
Operating income from investments	3,153	3,099	54	1.7
Net interest income	*450*	*423*	27	6.4
Dividends	*86*	*55*	31	56.4
Gains/losses on disposal	*474*	*311*	163	52.4
Valuation gains/losses	*2,162*	*2,328*	-166	-7.1
Portfolio management fees paid (i)	*-19*	*-18*	1	5.6
Gains (losses) on investments pertaining to insured parties	-2,961	-2,893	68	2.4
Insurance products (j)	*-380*	*-594*	-214	-36.0
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*10*	*10*	-	-
Investment products (l)	*-2,591*	*-2,309*	282	12.2
Income from insurance business gross of consolidation effects	**281**	**266**	**15**	**5.6**
Consolidation effects	3	25	-22	-88.0
Income from insurance business	**284**	**291**	**-7**	**-2.4**

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

For notes, see the previous table

At the quarterly level, income from insurance business, including both the life and non-life business, was slightly lower in the second quarter of 2019 than in the previous quarter, due to the reduction in the net investment result.

(millions of euro)

Business	30.06.2019				30.06.2018
	Periodic premiums	Single premiums	Total	*of which new business*	
Life insurance business	**78**	**4,444**	**4,522**	**4,444**	**3,211**
Premiums issued on traditional products	67	3,826	3,893	*3,826*	2,903
Premiums issued on unit-linked products	7	300	307	*300*	5
Premiums issued on capitalisation products	-	-	-	-	-
Premiums issued on pension funds	4	318	322	*318*	303
Non-life insurance business	**115**	**138**	**253**	46	**201**
Premiums issued	142	171	313	*193*	249
Change in premium reserves	-27	-33	-60	*-147*	-48
Premiums ceded to reinsurers	**-4**	**-8**	**-12**	-9	**-6**
Net premiums from insurance products	**189**	**4,574**	**4,763**	***4,481***	**3,406**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	37	3,397	3,434	*3,400*	7,121
Total business from investment contracts	**37**	**3,397**	**3,434**	***3,400***	**7,121**
Total business	**226**	**7,971**	**8,197**	***7,881***	**10,527**

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 six months of 2019, at 8.2 billion euro, though below that of the same period in the previous year. Traditional life business policies came to 3.9 billion euro, up on the first half of 2018, whereas class III policies of a primarily financial nature amounted to 3.4 billion euro, significantly lower than the business generated in the same period of 2018. Growth of open pension funds and the non-life business continues, with new business reaching 253 million euro.
New business was nearly 7.9 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

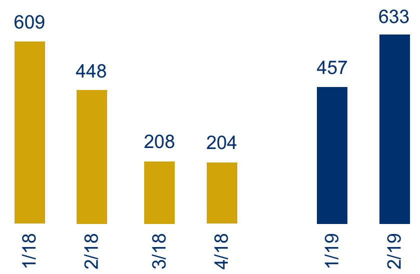
Profits (Losses) on financial assets and liabilities designated at fair value

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Interest rates	66	208	-142	-68.3
Equity instruments	205	344	-139	-40.4
Currencies	85	10	75	
Structured credit products	23	5	18	
Credit derivatives	-18	44	-62	
Commodity derivatives	4	7	-3	-42.9
Income from operations on assets designated at fair value through profit or loss	**365**	**618**	**-253**	**-40.9**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	725	439	286	65.1
Profits (Losses) on financial assets and liabilities designated at fair value	**1,090**	**1,057**	**33**	**3.1**

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 1,090 million euro in the first six months of 2019, compared with 1,057 million euro in the first half 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 (+286 million euro), which benefited in particular from dealings in securities accounted for in OCI (other comprehensive income). 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 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	
	Second quarter	First quarter	amount	%
Interest rates	144	-78	222	
Equity instruments	118	87	31	35.6
Currencies	44	41	3	7.3
Structured credit products	7	16	-9	-56.3
Credit derivatives	-24	6	-30	
Commodity derivatives	1	3	-2	-66.7
Income from operations on assets designated at fair value through profit or loss	**290**	**75**	**215**	
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	343	382	-39	-10.2
Income (Losses) on financial assets and liabilities designated at fair value	**633**	**457**	**176**	**38.5**

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

The figure for the second quarter of 2019 was higher than in the previous quarter, due to the realised gains on assets measured at fair value through profit or loss.

Other operating income (expenses)

Other operating income amounted to 9 million euro, compared with the 55 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 half of 2018 was mainly 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.

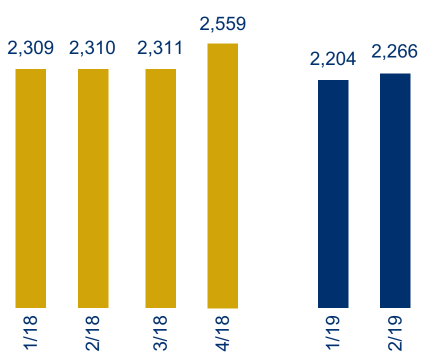
Operating costs

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Wages and salaries	1,918	2,016	-98	-4.9
Social security charges	500	515	-15	-2.9
Other	387	348	39	11.2
Personnel expenses	**2,805**	**2,879**	**-74**	**-2.6**
Information technology expenses	327	332	-5	-1.5
Management of real estate assets expenses	154	179	-25	-14.0
General structure costs	180	191	-11	-5.8
Professional and legal expenses	129	156	-27	-17.3
Advertising and promotional expenses	52	53	-1	-1.9
Indirect personnel costs	39	33	6	18.2
Other costs	216	231	-15	-6.5
Indirect taxes and duties	445	457	-12	-2.6
Recovery of expenses and charges	-389	-403	-14	-3.5
Administrative expenses	**1,153**	**1,229**	**-76**	**-6.2**
Property and equipment	249	266	-17	-6.4
Intangible assets	263	245	18	7.3
Adjustments	**512**	**511**	**1**	**0.2**
Operating costs	**4,470**	**4,619**	**-149**	**-3.2**

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 half of 2019, amounting to 4,470 million euro, a decrease of 3.2% on the figure for the first six months of 2018.
Personnel expenses amounted to 2,805 million euro, down by 2.6%, driven by staff downsizing (-4.5% in average terms), the savings from which were more than enough to offset the cost increase relating to incentives for growth.
Administrative expenses of 1,153 million euro (-6.2%) presented extensive savings on legal and professional fees (-27 million euro), real estate management (-25 million euro), general structure costs (-11 million euro) and other expenses for services rendered by third parties.
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 leases, remained essentially stable.
The cost/income ratio for the period was 49.3%, compared with a slightly lower value of 49% for the first half of 2018, due to a decrease in revenues, partially offset by a reduction in costs.

(millions of euro)

	2019 Second quarter	2019 First quarter	Changes amount	Changes %
Wages and salaries	970	948	22	2.3
Social security charges	254	246	8	3.3
Other	194	193	1	0.5
Personnel expenses	**1,418**	**1,387**	**31**	**2.2**
Information technology expenses	161	166	-5	-3.0
Management of real estate assets expenses	80	74	6	8.1
General structure costs	90	90	-	-
Professional and legal expenses	73	56	17	30.4
Advertising and promotional expenses	31	21	10	47.6
Indirect personnel costs	19	20	-1	-5.0
Other costs	118	98	20	20.4
Indirect taxes and duties	222	223	-1	-0.4
Recovery of expenses and charges	-198	-191	7	3.7
Administrative expenses	**596**	**557**	**39**	**7.0**
Property and equipment	119	130	-11	-8.5
Intangible assets	133	130	3	2.3
Adjustments	**252**	**260**	**-8**	**-3.1**
Operating costs	**2,266**	**2,204**	**62**	**2.8**

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

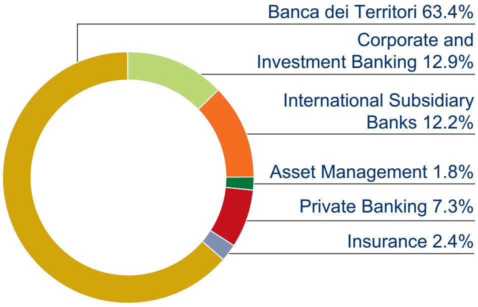
At the quarterly level, the figure for the second quarter of 2019 was slightly higher than in the previous quarter, due to both personnel expenses and administrative expenses.

(millions of euro)

	30.06.2019	30.06.2018	Changes amount	Changes %
Banca dei Territori	2,484	2,671	-187	-7.0
Corporate and Investment Banking	504	510	-6	-1.2
International Subsidiary Banks	478	477	1	0.2
Private Banking	288	279	9	3.2
Asset Management	72	77	-5	-6.5
Insurance	94	85	9	10.6
Total business areas	**3,920**	**4,099**	**-179**	**-4.4**
Corporate Centre	550	520	30	5.8
Intesa Sanpaolo Group	**4,470**	**4,619**	**-149**	**-3.2**

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 six months of the previous year (-7%, or -187 million euro) thanks to lower personnel expenses, attributable to a reduction in the average workforce, and lower administrative expenses, due to lower service costs. Asset Management also decreased (-6.5%, or -5 million euro) due to the reduction in personnel and administrative expenses, as did Corporate and Investment Banking (-1.2%, or -6 million euro), due to lower administrative expenses and amortisation and depreciation.
By contrast, the other business units reported increases in operating costs: Insurance (+10.6%, or +9 million euro), due to the performance of all cost components, and Private Banking (+3.2% or +9 million euro), due to personnel expenses and amortisation and depreciation.

Operating margin

The operating margin amounted to 4,596 million euro, down by 4.3% on the first half of 2018. The decrease in operating costs only partly offset the decrease in revenues. If the gross capital gain of 264 million euro on NTV is excluded from the 2018 base, the operating margin was up by 1.3%.

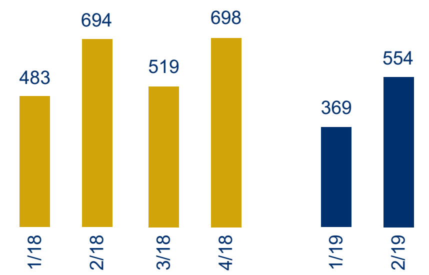
Net adjustments to loans

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Bad loans	-356	-605	-249	-41.2
Unlikely to pay	-542	-682	-140	-20.5
Past due loans	-162	-202	-40	-19.8
Stage 3 loans	**-1,060**	**-1,489**	**-429**	**-28.8**
of which debt securities	*-4*	*-*	*4*	*-*
Stage 2 loans	**-111**	**97**	**-208**	
of which debt securities	*-12*	*7*	*-19*	
Stage 1 loans	**211**	**151**	**60**	**39.7**
of which debt securities	*1*	*14*	*-13*	*-92.9*
Net losses/recoveries on impairment of loans	**-960**	**-1,241**	**-281**	**-22.6**
Profits/losses from changes in contracts without derecognition	**-2**	**-5**	**-3**	**-60.0**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**39**	**69**	**-30**	**-43.5**
Net adjustments to loans	**-923**	**-1,177**	**-254**	**-21.6**

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 six months of 2019, net adjustments to loans amounted to 923 million euro, down significantly from the 1,177 million euro recorded in the first half of the previous year. This 21.6% decrease was due to lower adjustments to Stage 3 non-performing loans (-429 million euro, of which -249 million euro associated with bad loans) and greater recoveries on the Stage 1 loan portfolio (+60 million euro). These effects more than offset the greater adjustments to Stage 2 loans (208 million euro) and the lower recoveries on allowances for risks and charges for commitments and guarantees given (-30 million euro). The decrease in non-performing loans as a percentage of total loans continued in the first half of 2019, due in part to a more modest flow of new non-performing positions; 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 (59 basis points) and the previous year (61 basis points).

Total coverage of non-performing loans amounted to 54.1%. In further detail, bad loans required total net adjustments of 356 million euro, compared to 605 million euro in the first half of 2018, with a coverage ratio of 65.9%. Net impairment losses on unlikely to pay loans, totalling 542 million euro, were down by 20.5%, with a coverage ratio of 37.2%. Net impairment losses on past due loans amounted to 162 million euro, with a coverage ratio of 25.1%. The coverage ratio for forborne positions within the non-performing loans category was 41.3% at the end of June 2019. Finally, the coverage ratio of performing loans was 0.5%.

(millions of euro)

	2019		Changes	
	Second quarter	First quarter	amount	%
Bad loans	-193	-163	30	18.4
Unlikely to pay	-286	-256	30	11.7
Past due loans	-78	-84	-6	-7.1
Stage 3 loans	**-557**	**-503**	**54**	**10.7**
of which debt securities	-4	-	4	-
Stage 2 loans	**-76**	**-35**	**41**	
of which debt securities	-9	-3	6	
Stage 1 loans	**72**	**139**	**-67**	**-48.2**
of which debt securities	1	-	1	-
Net losses/recoveries on impairment of loans	**-561**	**-399**	**162**	**40.6**
Profits/losses from changes in contracts without derecognition	**-1**	**-1**	**-**	**-**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**8**	**31**	**-23**	**-74.2**
Net adjustments to loans	**-554**	**-369**	**185**	**50.1**

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

The second quarter of 2019 showed higher adjustments to loans than in the first quarter of the year, but lower than in the second quarter of 2018.

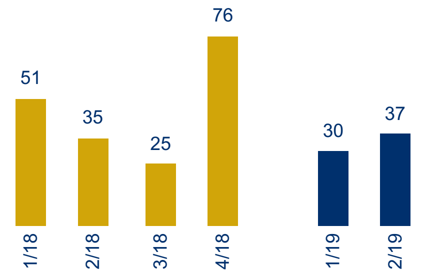
Other net provisions and net impairment losses on other assets

(millions of euro)

	30.06.2019	30.06.2018	Changes	
			amount	%
Other net provisions	-48	-72	-24	-33.3
Net impairment losses on instruments designated at fair value through other comprehensive income	-15	-3	12	
Net impairment losses on other assets	-3	-9	-6	-66.7
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-1	-2	-1	-50.0
Other net provisions and net impairment losses on other assets	**-67**	**-86**	**-19**	**-22.1**

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

Quarterly development
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 half of 2019, other net provisions and net impairment losses on other assets amounted to 67 million euro, compared with the 86 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 for legal and tax disputes.

(millions of euro)

	2019		Changes	
	Second quarter	First quarter	amount	%
Other net provisions	-34	-14	20	
Net impairment losses on instruments designated at fair value through other comprehensive income	-7	-8	-1	-12.5
Net impairment losses on other assets	4	-7	11	
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-	-1	-1	
Other net provisions and net impairment losses on other assets	**-37**	**-30**	**7**	**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 first half of 2019, other income amounted to 7 million euro, compared with 1 million euro in the same period in the previous year.

Gross income (loss)
Income before tax from continuing operations came to 3,613 million euro, up (+2.1%) on the first six 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 10%.

Taxes on income
Current and deferred taxes came to 985 million euro for an effective tax rate of 27.3%, compared with 29.5% in the same period in 2018, also due to the already mentioned realignment of tax values.

Charges (net of tax) for integration and exit incentives
This caption amounted to 52 million euro, compared with 35 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 half of 2019, these costs amounted to 69 million euro, 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. Such charges were up on the first half of the previous year, totalling 242 million euro, after tax (219 million euro in the first half of 2018). The main component was contributions to resolution funds of 215 million euro, inclusive of the balance payment (19 million euro) and additional contribution (59 million euro), recognised in May and June of the current year, respectively.

Minority interests
The minority interest share of net losses of companies within the scope of line-by-line consolidation amounted to 1 million euro for the half-year, compared with 9 million euro in the same period of 2018.

Net income (loss)
As a result of the above trends, the Group ended the first half of 2019 with net income of 2,266 million euro, its best half-yearly performance since 2008. Despite the essentially stagnant situation and tensions triggered by the trade war, the Intesa Sanpaolo Group continues to report a positive income performance, up (+4%) on the same period of the previous year, driven by the acceleration of the main income margins in the second quarter.

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	**30.06.2019**	**01.01.2019**	**Changes**	
			amount	**%**
Due from banks	77,141	68,723	8,418	12.2
Loans to customers	394,253	393,550	*703*	*0.2*
Loans to customers measured at amortised cost	*393,243*	*392,945*	*298*	*0.1*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,010*	*605*	*405*	*66.9*
Financial assets measured at amortised cost which do not constitute loans	20,396	14,183	6,213	43.8
Financial assets at fair value through profit or loss	52,693	41,536	11,157	26.9
Financial assets at fair value through other comprehensive income	65,996	60,441	5,555	9.2
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	159,171	149,546	9,625	6.4
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	568	952	-384	-40.3
Investments in associates and companies subject to joint control	1,071	943	128	13.6
Property, equipment and intangible assets	16,895	17,081	-186	-1.1
Assets owned	15,325	15,452	-127	-0.8
Rights of use acquired under leases	*1,570*	*1,629*	*-59*	*-3.6*
Tax assets	16,120	17,253	-1,133	-6.6
Non-current assets held for sale and discontinued operations	803	1,297	-494	-38.1
Other assets	23,258	23,811	-553	-2.3
Total Assets	**828,365**	**789,316**	**39,049**	**4.9**

Liabilities	**30.06.2019**	**01.01.2019**	**Changes**	
			amount	**%**
Due to banks at amortised cost	120,077	107,815	12,262	11.4
Due to customers at amortised cost and securities issued	411,588	405,960	5,628	1.4
Financial liabilities held for trading	51,187	41,895	9,292	22.2
Financial liabilities designated at fair value	4	4	-	-
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	847	810	37	4.6
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,027	67,800	4,227	6.2
Tax liabilities	2,056	2,433	-377	-15.5
Liabilities associated with non-current assets held for sale and discontinued operations	254	258	-4	-1.6
Other liabilities	26,483	20,859	5,624	27.0
of which lease payables	*1,547*	*1,603*	*-56*	*-3.5*
Technical reserves	84,710	80,797	3,913	4.8
Allowances for risks and charges	5,260	6,254	-994	-15.9
of which allowances for commitments and financial guarantees given	*450*	*510*	*-60*	*-11.8*
Share capital	9,086	9,085	1	-
Reserves	38,232	37,690	542	1.4
Valuation reserves	-474	-913	-439	-48.1
Valuation reserves pertaining to insurance companies	322	9	313	
Equity instruments	4,103	4,103	-	-
Minority interests	337	407	-70	-17.2
Net income (loss)	2,266	4,050	-1,784	-44.0
Total liabilities and shareholders' equity	**828,365**	**789,316**	**39,049**	**4.9**

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			
	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due from banks	77,141	85,515	68,723	68,723	71,178	69,876	70,646
Loans to customers	394,253	395,595	393,550	393,550	395,265	399,704	400,958
Loans to customers measured at amortised cost	*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	*1,010*	*605*	*605*	*605*	*722*	*621*	*614*
Financial assets measured at amortised cost which do not constitute loans	20,396	19,995	14,183	14,183	12,528	12,181	11,688
Financial assets at fair value through profit or loss	52,693	47,626	41,536	41,536	41,377	42,158	42,115
Financial assets at fair value through other comprehensive income	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	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	568	702	952	952	638	682	476
Investments in associates and companies subject to joint control	1,071	1,075	943	943	592	602	608
Property, equipment and intangible assets	16,895	16,899	17,081	15,474	14,352	14,410	14,400
Assets owned	*15,325*	*15,317*	*15,452*				
Rights of use acquired under leases	*1,570*	*1,582*	*1,629*				
Tax assets	16,120	16,854	17,253	17,253	17,116	17,120	17,354
Non-current assets held for sale and discontinued operations	803	1,236	1,297	1,297	3,694	3,609	751
Other assets	23,258	22,137	23,811	23,823	21,697	21,288	22,046
Total Assets	**828,365**	**829,280**	**789,316**	**787,721**	**798,961**	**795,695**	**795,148**

Liabilities and Shareholders' Equity	2019			2018			
	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due to banks at amortised cost	120,077	123,165	107,815	107,815	107,551	99,059	98,313
Due to customers at amortised cost and securities issued	411,588	416,505	405,960	405,960	417,801	424,836	417,731
Financial liabilities held for trading	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
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	847	846	810	810	905	1,413	1,394
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,027	70,955	67,800	67,800	71,069	70,337	69,058
Tax liabilities	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	254	260	258	258	312	261	266
Other liabilities	26,483	22,675	20,859	19,264	19,370	20,190	21,073
of which lease payables	*1,547*	*1,553*	*1,603*				
Technical reserves	84,710	82,508	80,797	80,797	80,449	79,842	82,656
Allowances for risks and charges	5,260	5,694	6,254	6,254	6,566	6,877	7,242
of which allowances for commitments and financial guarantees given	*450*	*449*	*510*	*510*	*490*	*473*	*503*
Share capital	9,086	9,085	9,085	9,085	9,084	8,732	8,732
Reserves	38,232	41,704	37,690	37,690	37,949	37,212	40,796
Valuation reserves	-474	-877	-913	-913	-1,631	-1,366	-760
Valuation reserves pertaining to insurance companies	322	137	9	9	-44	3	429
Equity instruments	4,103	4,103	4,103	4,103	4,103	4,103	4,103
Minority interests	337	358	407	407	366	386	529
Net income (loss)	2,266	1,050	4,050	4,050	3,012	2,179	1,252
Total Liabilities and Shareholders' Equity	**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

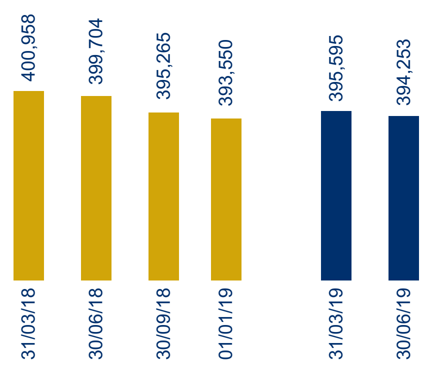
(millions of euro)

	30.06.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	19,769	5.0	21,927	5.7	-2,158	-9.8
Mortgages	175,840	44.6	176,821	44.9	-981	-0.6
Advances and other loans	142,545	36.1	139,458	35.4	3,087	2.2
Commercial banking loans	**338,154**	**85.7**	**338,206**	**86.0**	**-52**	**-**
Repurchase agreements	**34,357**	**8.7**	**33,641**	**8.5**	**716**	**2.1**
Loans represented by securities	**5,761**	**1.5**	**5,112**	**1.3**	**649**	**12.7**
Non-performing loans	**15,981**	**4.1**	**16,591**	**4.2**	**-610**	**-3.7**
Loans to customers	**394,253**	**100.0**	**393,550**	**100.0**	**703**	**0.2**

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

The Group's loans to customers exceeded 394 billion euro as at 30 June 2019, marking a year-to-date increase of 703 million euro, or +0.2%. The stability of the aggregate was due to commercial banking loans, within which the development of loans and advances, primarily to businesses (+3.1 billion euro, or +2.2%), offset the decrease in current accounts (-2.2 billion euro, or -9.8%) and mortgage loans (-1 billion euro, or -0.6%). The above was in addition to the increase in repurchase agreements (+716 million euro) and loans represented by securities (+649 million euro), only partly offset by the decrease in non-performing loans (-610 million euro).
In the domestic medium/long-term loan market, disbursements to households in the first half of 2019 (including the small business accounts having similar needs to family businesses) amounted to approximately 8.2 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 6.2 billion euro. During the period, medium/long-term disbursements to segments included in the scope of the Corporate Division amounted to 6.9 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy amounted to 21.5 billion euro. On the whole, medium/long-term disbursements for the Group in the first half of 2019, including the international subsidiary banks' operations, reached 26 billion euro.
As at 30 June 2019, the Group's share of the Italian domestic market was estimated at 17.5% for total loans. This estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figures for the end of June are not yet available.

Quarterly development
Loans to customers
(millions of euro)

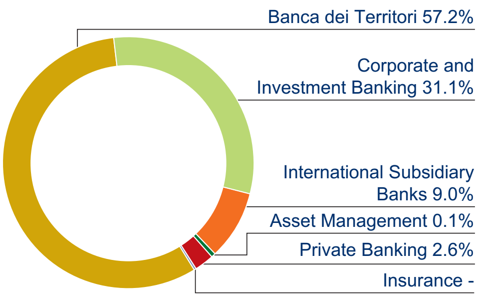


(millions of euro)

	30.06.2019	01.01.2019	Changes	
			amount	%
Banca dei Territori	207,661	211,491	-3,830	-1.8
Corporate and Investment Banking	112,929	110,642	2,287	2.1
International Subsidiary Banks	32,713	31,538	1,175	3.7
Private Banking	9,620	9,530	90	0.9
Asset Management	258	228	30	13.2
Insurance	-	-	-	-
Total business areas	**363,181**	**363,429**	**-248**	**-0.1**
Corporate Centre	31,072	30,121	951	3.2
Intesa Sanpaolo Group	**394,253**	**393,550**	**703**	**0.2**

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 almost 60% of the aggregate of the Group’s business areas, recorded a decrease of 3.8 billion euro year-to-date (-1.8%), primarily due to the drop in the short-term component, especially to businesses. The Corporate and Investment Banking Division's loans grew by 2.3 billion euro (+2.1%), 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 1.2 billion euro (+3.7%) specifically due to the increase in the loans issued by the subsidiaries operating in Slovakia, Egypt 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 increased by 0.9%, following the increase in mortgages and repurchase agreements with institutional customers.
The growth at the level of the Corporate Centre is largely attributable to reverse repurchase agreement transactions with Cassa di Compensazione e Garanzia.

Loans to customers: credit quality

(millions of euro)

	30.06.2019		01.01.2019		Change
	Net exposure	**% breakdown**	**Net exposure**	**% breakdown**	**Net exposure**
Bad loans	7,054	1.8	7,138	1.8	-84
Unlikely to pay	8,552	2.2	9,101	2.3	-549
Past due loans	375	0.1	352	0.1	23
Non-Performing Loans	**15,981**	**4.1**	**16,591**	**4.2**	**-610**
Non-performing loans in Stage 3 (subject to impairment)	*15,924*	*4.0*	*16,531*	*4.2*	-607
Non-performing loans designated at fair value through profit or loss	*57*	*-*	*60*	*-*	-3
Performing loans	**372,482**	**94.4**	**371,772**	**94.5**	**710**
Stage 2	*39,668*	*10.0*	*42,564*	*10.8*	-2,896
Stage 1	*332,239*	*84.3*	*328,766*	*83.6*	3,473
Performing loans designated at fair value through profit or loss	*575*	*0.1*	*442*	*0.1*	133
Performing loans represented by securities	**5,761**	**1.5**	**5,112**	**1.3**	**649**
Stage 2	*1,941*	*0.5*	*970*	*0.2*	971
Stage 1	*3,820*	*1.0*	*4,142*	*1.1*	-322
Loans held for trading	**29**	**-**	**75**	**-**	**-46**
Total loans to customers	**394,253**	**100.0**	**393,550**	**100.0**	**703**
of which forborne performing	***7,264***		***7,937***		***-673***
of which forborne non-performing	***5,096***		***5,437***		***-341***
Loans to customers classified as discontinued operations (*)	**443**		**934**		**-491**

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

(*) As at 30 June 2019, this caption included the portfolio of bad loans, unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 254 million euro, total adjustments of 112 million euro, net exposure of 142 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 350 million euro, total adjustments of 49 million euro, net exposure of 301 million euro).

As at 30 June 2019, the Group's net non-performing loans amounted to 16 billion euro, down by 3.7% compared with the beginning of the year, continuing the progressive decline that marked the previous year. Non-performing assets decreased slightly as a percentage of total net loans to customers, down to 4.1%, while the coverage ratio for non-performing loans remained high at 54.1%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, bad loans came to 7.1 billion euro, net of adjustments, at the end of June 2019, confirming the figure of the beginning of the year, and continued to represent 1.8% of total loans. During the same period, the coverage ratio stood at 65.9%. Loans included in the unlikely-to-pay category amounted to 8.6 billion euro, down by 6%, accounting for 2.2% of total loans to customers, with a coverage ratio of 37.2%. Past due loans amounted to 375 million euro, up 6.5% since 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 5.1 billion euro, with a coverage ratio of 41.3%, while forborne exposures in the performing loans category amounted to 7.3 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					
30.06.2019	16,458	53,248	9,267	**78,973**	X
01.01.2019	7,089	50,865	7,909	**65,863**	X
Changes amount	9,369	2,383	1,358	**13,110**	
Changes %		4.7	17.2	**19.9**	
Other debt securities					
30.06.2019	5,606	9,634	11,129	**26,369**	X
01.01.2019	5,205	6,415	6,274	**17,894**	X
Changes amount	401	3,219	4,855	**8,475**	
Changes %	7.7	50.2	77.4	**47.4**	
Equities					
30.06.2019	954	3,114	X	**4,068**	X
01.01.2019	776	3,161	X	**3,937**	X
Changes amount	178	-47	X	**131**	
Changes %	22.9	-1.5	X	**3.3**	
Quotas of UCI					
30.06.2019	2,449	X	X	**2,449**	X
01.01.2019	2,564	X	X	**2,564**	X
Changes amount	-115	X	X	**-115**	
Changes %	-4.5	X	X	**-4.5**	
Due to banks and to customers					
30.06.2019	X	X	X	X	-11,740
01.01.2019	X	X	X	X	-5,415
Changes amount	X	X	X	X	6,325
Changes %	X	X	X	X	
Financial derivatives					
30.06.2019	26,194	X	X	**26,194**	-26,780
01.01.2019	25,186	X	X	**25,186**	-26,605
Changes amount	1,008	X	X	**1,008**	175
Changes %	4.0	X	X	**4.0**	0.7
Credit derivatives					
30.06.2019	1,032	X	X	**1,032**	-1,101
01.01.2019	716	X	X	**716**	-757
Changes amount	316	X	X	**316**	344
Changes %	44.1	X	X	**44.1**	45.4
TOTAL 30.06.2019	**52,693**	**65,996**	**20,396**	**139,085**	**-39,621**
TOTAL 01.01.2019	**41,536**	**60,441**	**14,183**	**116,160**	**-32,777**
Changes amount	**11,157**	**5,555**	**6,213**	**22,925**	**6,844**
Changes %	**26.9**	**9.2**	**43.8**	**19.7**	**20.9**

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

(*) The amount of the item does not include 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 139 billion euro, up by 19.7% compared with the beginning of the year, whereas financial liabilities held for trading came to 39.6 billion euro, up by 20.9% since 1 January 2019.
The increase in total financial assets was chiefly due to government debt securities (+13.1 billion euro, or +19.9%) and other debt securities (+8.5 billion euro, or +47.4%).

Financial assets measured at fair value through profit or loss amounted to 53 billion euro, marking an increase (+11.2 billion euro, or +26.9%) likewise due to government debt securities (+9.4 billion euro).

Financial assets measured at fair value through other comprehensive income amounted to 66 billion euro, almost entirely classified to Stage 1, and were up by 9.2% during the half-year.

Instruments measured at amortised cost which do not constitute loans exceeded 20 billion euro, up by 43.8% due to the instruments classified to Stage 1, which accounted for approximately 85% 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			
30.06.2019	62,578	17,284	**79,862**
01.01.2019	57,033	10,935	**67,968**
Changes amount	5,545	6,349	**11,894**
Changes %	9.7	58.1	**17.5**
Stage 2			
30.06.2019	304	3,110	**3,414**
01.01.2019	247	3,243	**3,490**
Changes amount	57	-133	**-76**
Changes %	23.1	-4.1	**-2.2**
Stage 3			
30.06.2019	-	2	**2**
01.01.2019	-	5	**5**
Changes amount	-	-3	**-3**
Changes %	-	-60.0	**-60.0**
TOTAL 30.06.2019	**62,882**	**20,396**	**83,278**
TOTAL 01.01.2019	**57,280**	**14,183**	**71,463**
Changes amount	**5,602**	**6,213**	**11,815**
Changes %	**9.8**	**43.8**	**16.5**

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

Customer financial assets

(millions of euro)

	30.06.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	423,158	45.0	415,082	45.5	8,076	1.9
Direct deposits from insurance business and technical reserves	157,529	16.8	149,358	16.4	8,171	5.5
Indirect customer deposits	515,206	54.9	495,808	54.4	19,398	3.9
Netting (a)	-156,685	-16.7	-148,553	-16.3	8,132	5.5
Customer financial assets	**939,208**	**100.0**	**911,695**	**100.0**	**27,513**	**3.0**

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 June 2019, customer financial assets stood at 939 billion euro, showing general growth across all components since the beginning of the year: indirect customer deposits increased by 19.4 billion euro, direct deposits from insurance business and technical reserves by 8.2 billion euro and direct deposits from banking business by 8.1 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.

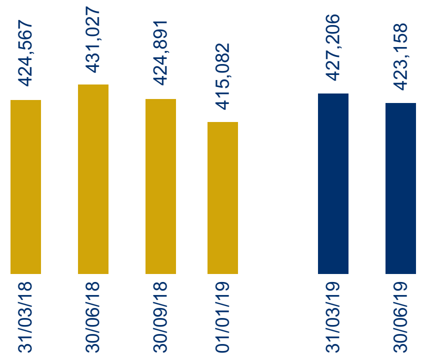
(millions of euro)

	30.06.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	302,855	71.6	290,587	70.0	12,268	4.2
Repurchase agreements and securities lending	16,474	3.9	24,105	5.8	-7,631	-31.7
Bonds	62,013	14.7	62,312	15.0	-299	-0.5
Certificates of deposit	4,831	1.1	5,151	1.2	-320	-6.2
Subordinated liabilities	11,135	2.6	10,782	2.6	353	3.3
Other deposits	25,850	6.1	22,145	5.4	3,705	16.7
of which designated at fair value (*)	*11,570*	*2.7*	*9,122*	*2.2*	*2,448*	*26.8*
Direct deposits from banking business	**423,158**	**100.0**	**415,082**	**100.0**	**8,076**	**1.9**

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)



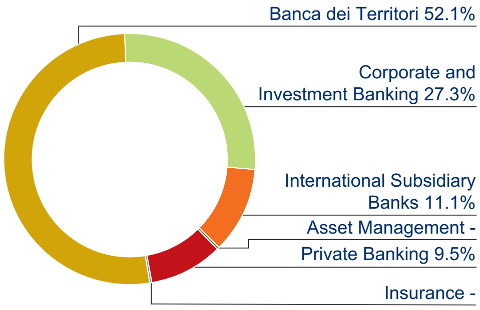
Direct deposits from banking business came to 423 billion euro, up by 1.9% on the beginning of the year.
Current accounts and deposits continued to record a very robust performance (+12.3 billion euro), given the propensity of customers to maintain a high level of liquidity. Other funding (+3.7 billion euro, including commercial papers and certificates) also grew, whereas repurchase agreements and securities lending declined (-7.6 billion euro).
As at 30 June 2019, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 17.9%. 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)

	30.06.2019	01.01.2019	Changes	
			amount	%
Banca dei Territori	195,425	191,588	3,837	2.0
Corporate and Investment Banking	102,578	102,449	129	0.1
International Subsidiary Banks	41,635	39,384	2,251	5.7
Private Banking	35,486	32,103	3,383	10.5
Asset Management	10	6	4	66.7
Insurance	-	-	-	-
Total business areas	**375,134**	**365,530**	**9,604**	**2.6**
Corporate Centre	48,024	49,552	-1,528	-3.1
Intesa Sanpaolo Group	**423,158**	**415,082**	**8,076**	**1.9**

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 3.8 billion euro year-to-date (+2%), due to the growth in amounts due to customers, as a result of greater liquidity in deposits by individuals and, to a lesser extent, businesses. The Corporate and Investment Banking Division was essentially stable: the increase in securities issued, specifically those of the Irish and Luxembourg subsidiaries and financial institutions, and the growth in certificates of Banca IMI were offset by the decrease in repurchase agreements. The progress achieved by the International Subsidiary Banks Division (+2.3 billion euro, or +5.7%) is mainly attributable to the performance of the subsidiaries operating in Slovakia, Egypt and Serbia. The Private Banking Division reported growth of 3.4 billion euro (+10.5%), 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)

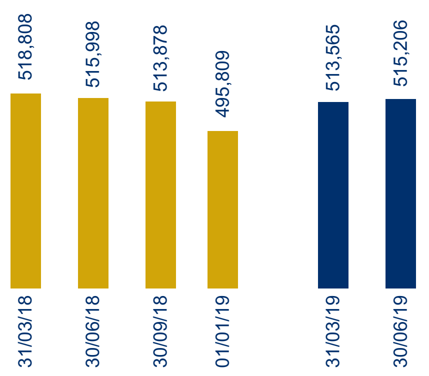
	30.06.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds [(a)]	119,140	23.1	115,288	23.3	3,852	3.3
Open-ended pension funds and individual pension plans	9,658	1.9	8,871	1.8	787	8.9
Portfolio management [(b)]	55,469	10.8	52,652	10.6	2,817	5.4
Technical reserves and financial liabilities of the insurance business	145,498	28.2	140,332	28.3	5,166	3.7
Relations with institutional customers	14,332	2.8	13,450	2.7	882	6.6
Assets under management	**344,097**	**66.8**	**330,593**	**66.7**	**13,504**	**4.1**
Assets under administration and in custody	**171,109**	**33.2**	**165,216**	**33.3**	**5,893**	**3.6**
Indirect customer deposits	**515,206**	**100.0**	**495,809**	**100.0**	**19,397**	**3.9**

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

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

(b) The entry does not include stocks of unit-linked policies of Intesa Sanpaolo Vita, the value of which is included in the technical reserves and financial insurance liabilities.

Quarterly development
Indirect customer deposits
(millions of euro)



As at 30 June 2019, the Group's indirect customer deposits amounted to 515 billion euro, up by 3.9% compared with the beginning of the year, due to increases across all components. The favourable market performance led to the revaluation of assets, against the backdrop of customers' propensity to retain a high level of liquidity.

Assets under management, which account for approximately two-thirds of the total aggregate, increased by 13.5 billion euro (+4.1%), mainly driven by technical reserves and insurance financial liabilities (+3.7%), mutual funds (+3.3%) and portfolio management schemes (+5.4%). In the period, the new life business of the life insurance companies of the Intesa Sanpaolo Group, including pension products, amounted to 7.8 billion euro.

Assets under administration increased by 5.9 billion euro (+3.6%), mainly due to third-party securities and products.

Net interbank position

The net interbank position as at 30 June 2019 showed a net debt of 42.9 billion euro, up compared to 1 January of the same year (net debt of 39.1 billion euro). Amounts due to banks, equal to 120.1 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						
30.06.2019	107	3,699	54,656	-	**58,462**	X
01.01.2019	103	3,647	49,364	-	**53,114**	X
Changes amount	4	52	5,292	-	**5,348**	
Changes %	3.9	1.4	10.7	-	**10.1**	
Other debt securities						
30.06.2019	26	734	12,208	-	**12,968**	X
01.01.2019	26	666	12,940	-	**13,632**	X
Changes amount	-	68	-732		**-664**	
Changes %	-	10.2	-5.7		**-4.9**	
Equities						
30.06.2019	-	2,069	1,072	-	**3,141**	X
01.01.2019	-	1,678	979	-	**2,657**	X
Changes amount	-	391	93	-	**484**	
Changes %	-	23.3	9.5	-	**18.2**	
Quotas of UCI						
30.06.2019	104	72,318	11,488	-	**83,910**	X
01.01.2019	108	67,748	11,639	-	**79,495**	X
Changes amount	-4	4,570	-151	-	**4,415**	
Changes %	-3.7	6.7	-1.3	-	**5.6**	
Due from banks and loans to customers						
30.06.2019	-	555	-	568	**1,123**	X
01.01.2019	-	575	-	952	**1,527**	X
Changes amount	-	-20	-	-384	**-404**	
Changes %	-	-3.5	-	-40.3	**-26.5**	
Due to banks						
30.06.2019	X	X	X	X	X	-3 (**)
01.01.2019	X	X	X	X	X	-5 (**)
Changes amount						-2
Changes %						-40.0
Financial derivatives						
30.06.2019	134	-	-	-	**134**	-52 (***)
01.01.2019	72	-	-	-	**72**	-44 (***)
Changes amount	62	-	-	-	**62**	8
Changes %	86.1	-	-	-	**86.1**	18.2
Credit derivatives						
30.06.2019	1	-	-	-	**1**	- (***)
01.01.2019	1	-	-	-	**1**	- (***)
Changes amount	-	-	-	-	**-**	-
Changes %	-	-	-	-	**-**	-
TOTAL 30.06.2019	**372**	**79,375**	**79,424**	**568**	**159,739**	**-55**
TOTAL 01.01.2019	**310**	**74,314**	**74,922**	**952**	**150,498**	**-49**
Changes amount	**62**	**5,061**	**4,502**	**-384**	**9,241**	**6**
Changes %	**20.0**	**6.8**	**6.0**	**-40.3**	**6.1**	**12.2**

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 160 billion euro and 55 million euro, respectively. The increase in assets (+6.1%) was due to the portfolios designated at fair value and available for sale.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.06.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value IAS39 (*)	**71,975**	**45.7**	**67,756**	**45.4**	**4,219**	**6.2**
Index-linked products	-	-	-	-	-	-
Unit-linked products	*71,975*	*45.7*	*67,756*	*45.4*	*4,219*	*6.2*
Technical reserves	**84,710**	**53.8**	**80,797**	**54.1**	**3,913**	**4.8**
Life business	83,838	53.2	80,009	53.6	3,829	4.8
Mathematical reserves	*72,553*	*46.0*	*71,569*	*47.9*	*984*	*1.4*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*6,555*	*4.2*	*6,093*	*4.1*	*462*	*7.6*
Other reserves	*4,730*	*3.0*	*2,347*	*1.6*	*2,383*	
Non-life business	872	0.6	788	0.5	84	10.7
Other insurance deposits (***)	**844**	**0.5**	**805**	**0.5**	**39**	**4.8**
Direct deposits from insurance business and technical reserves	**157,529**	**100.0**	**149,358**	**100.0**	**8,171**	**5.5**

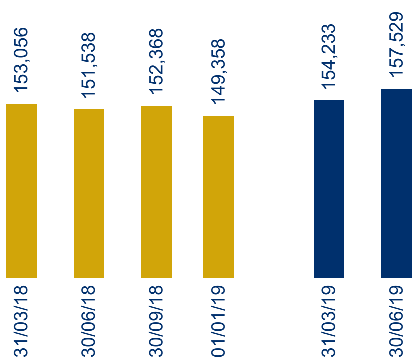
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(*) 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 158 billion euro as at 30 June 2019, up by 5.5% compared with the beginning of the year. Financial liabilities measured at fair value, consisting of unit-linked products, increased by 4.2 billion euro (+6.2%). Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded an increase of 3.9 billion euro (+4.8%), mainly attributable to the life business.

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 June 2019, assets held for sale amounted to 803 million euro, or 549 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 142 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 (net exposure of 301 million euro).

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
EU Countries	**9,630**	**43,367**	**5,335**	**53,619**	**111,951**	**13,232**
Austria	-	-	57	2	59	-
Belgium	-	542	110	4	656	-
Bulgaria	-	-	-	63	63	-
Croatia	-	1,322	139	96	1,557	955
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	9	11	-	20	-
Estonia	-	-	-	-	-	-
Finland	-	30	40	7	77	-
France	248	1,900	400	1,767	4,315	5
Germany	-	1,659	-25	569	2,203	-
Greece	-	-	91	-	91	-
Hungary	-	1,332	80	10	1,422	29
Ireland	-	589	-1	111	699	-
Italy	8,969	22,269	3,029	48,879	83,146	11,797
Latvia	-	8	-	-	8	39
Lithuania	-	15	-	-	15	-
Luxembourg	-	78	16	-	94	-
Malta	-	-	-	-	-	-
The Netherlands	-	429	75	125	629	-
Poland	18	59	-11	31	97	-
Portugal	374	-	79	-	453	-
Romania	-	257	-2	208	463	8
Slovakia	-	324	35	-	359	131
Slovenia	-	214	-	-	214	211
Spain	21	12,331	965	1,646	14,963	57
Sweden	-	-	165	-	165	-
United Kingdom	-	-	82	101	183	-
Non-EU Countries						
Albania	492	8	1	-	501	1
Egypt	-	1,208	-	40	1,248	-
Japan	-	721	767	-	1,488	-
Russia	-	142	2	-	144	-
Serbia	-	717	6	-	723	100
U.S.A.	23	4,661	-185	14	4,513	-

Management accounts

SHAREHOLDERS' EQUITY

As at 30 June 2019, the Group's shareholders' equity, including the net income for the period, came to 53,535 million euro compared to the 54,024 million euro at the beginning of the year. The decrease in equity was due to the distribution of the 2018 net income.

Valuation reserves

(millions of euro)

	Reserve 01.01.2019	Change of the period	Reserve 30.06.2019
Financial assets designated at fair value through other comprehensive income (debt instruments)	-489	354	-135
Financial assets designated at fair value through other comprehensive income (equities)	189	16	205
Property and equipment	1,256	232	1,488
Cash flow hedges	-816	-146	-962
Foreign exchange differences	-1,011	43	-968
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	-62	-437
Portion of the valuation reserves connected with investments carried at equity	25	2	27
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-913**	**439**	**-474**
Valuation reserves pertaining to insurance companies	**9**	**313**	**322**

Valuation reserves increased by 439 million euro in the banking component and by 313 million euro in the insurance component, essentially due to the performance of the spread on Italian government bonds.

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	**30.06.2019**		**31.12.2018**
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	34,351	38,015	37,241
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,740	4,740	4,856
TIER 1 CAPITAL	**39,091**	**42,755**	**42,097**
Tier 2 capital net of regulatory adjustments	7,339	6,486	6,781
TOTAL OWN FUNDS	**46,430**	**49,241**	**48,878**
Risk-weighted assets			
Credit and counterparty risks	240,633	241,483	237,237
Market and settlement risk	20,116	20,116	21,147
Operational risks	18,344	18,344	17,671
Other specific risks (a)	317	317	391
RISK-WEIGHTED ASSETS	**279,410**	**280,260**	**276,446**
% Capital ratios			
Common Equity Tier 1 capital ratio	12.3%	13.6%	13.5%
Tier 1 capital ratio	14.0%	15.3%	15.2%
Total capital ratio	16.6%	17.6%	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 June 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 June 2019, considering the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 49,241 million euro, against risk-weighted assets of 280,260 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 46,430 million euro, compared to risk-weighted assets of 279,410 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 net income for the first half 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).
The increase in risk-weighted assets during the half-year relating to credit risk includes 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 June 2019, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 13.6%, a Tier 1 ratio of 15.3% and a total capital ratio of 17.6%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 June 2019 were as follows: a Common Equity ratio of 12.3%, a Tier 1 ratio of 14.0% and a Total capital ratio of 16.6%.
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 9.36% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

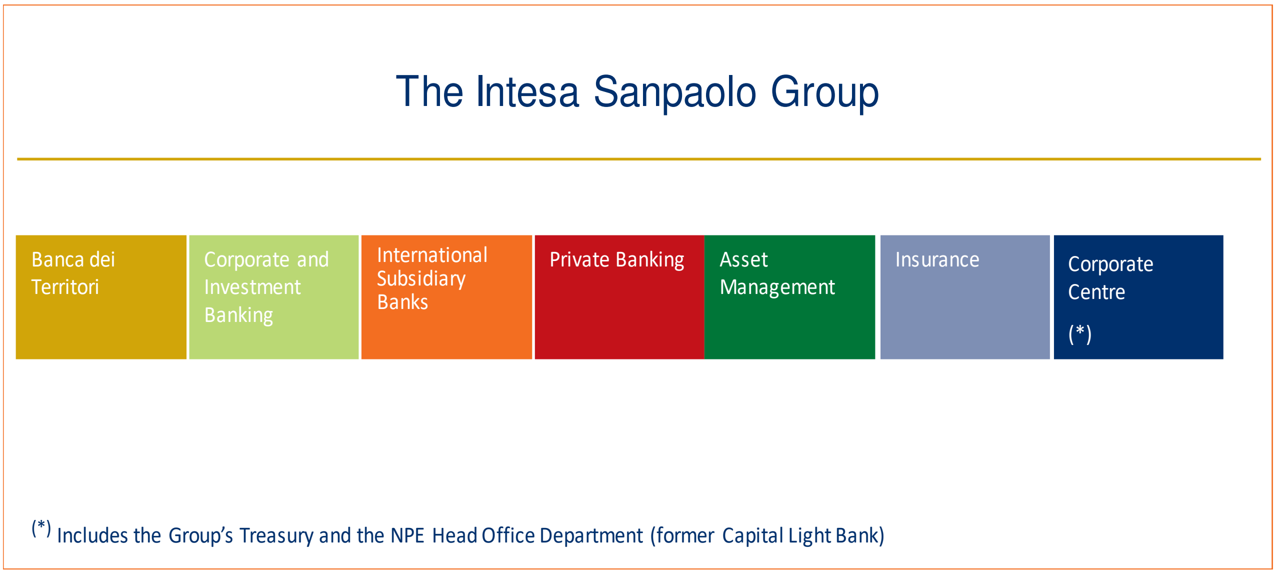
Captions	30.06.2019	31.12.2018
Group Shareholders' equity	53,535	54,024
Minority interests	337	407
Shareholders' equity as per the Balance Sheet	**53,872**	**54,431**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-4,121	-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	-298	-372
- Ineligible net income for the period (a)	-1,887	-3,534
- Treasury shares included under regulatory adjustments	206	204
- Other ineligible components on full phase-in	-148	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**47,616**	**46,466**
Regulatory adjustments (including transitional adjustments) (b)	**-9,601**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**38,015**	**37,241**

(a) Common Equity Tier 1 capital as at 30 June 2019 includes the net income for the second quarter 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 June 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.

Breakdown of consolidated results by business area and geographical area

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



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

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first half of 2019.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the first half of the year; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the provisions in force (Circulars 285 and 286, both issued during 2013, and the update to Circular 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

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

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
30.06.2019	4,410	2,079	986	962	364	542	-277	9,066
30.06.2018	4,731	2,105	990	951	370	620	-347	9,420
% change	-6.8	-1.2	-0.4	1.2	-1.6	-12.6	-20.2	-3.8
Operating costs								
30.06.2019	-2,484	-504	-478	-288	-72	-94	-550	-4,470
30.06.2018	-2,671	-510	-477	-279	-77	-85	-520	-4,619
% change	-7.0	-1.2	0.2	3.2	-6.5	10.6	5.8	-3.2
Operating margin								
30.06.2019	1,926	1,575	508	674	292	448	-827	4,596
30.06.2018	2,060	1,595	513	672	293	535	-867	4,801
% change	-6.5	-1.3	-1.0	0.3	-0.3	-16.3	-4.6	-4.3
Net income (loss)								
30.06.2019	839	983	371	465	226	324	-942	2,266
30.06.2018	768	1,135	378	461	232	388	-1,183	2,179
% change	9.2	-13.4	-1.9	0.9	-2.6	-16.5	-20.4	4.0
								-
Loans to customers								
30.06.2019	207,661	112,929	32,713	9,620	258	-	31,072	394,253
01.01.2019	211,491	110,642	31,538	9,530	228	-	30,121	393,550
% change	-1.8	2.1	3.7	0.9	13.2	-	3.2	0.2
Direct deposits from banking business								
30.06.2019	195,425	102,578	41,635	35,486	10	-	48,024	423,158
01.01.2019	191,588	102,449	39,384	32,103	6	-	49,552	415,082
% change	2.0	0.1	5.7	10.5	66.7	-	-3.1	1.9
Risk-weighted assets								
30.06.2019	89,460	88,046	32,506	8,404	986	-	60,858	280,260
31.12.2018	91,542	86,797	31,284	7,670	963	-	58,190	276,446
% change	-2.3	1.4	3.9	9.6	2.4	-	4.6	1.4
Absorbed capital								
30.06.2019	8,275	8,148	3,639	833	107	4,318	5,630	30,950
31.12.2018	8,468	8,032	3,511	755	103	3,874	5,382	30,125
% change	-2.3	1.4	3.6	10.3	3.9	11.5	4.6	2.7

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

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	30.06.2019	30.06.2018	changes	
			amount	%
Net interest income	2,194	2,345	-151	-6.4
Net fee and commission income	2,173	2,322	-149	-6.4
Income from insurance business	1	-	1	-
Profits (Losses) on financial assets and liabilities designated at fair value	33	37	-4	-10.8
Other operating income (expenses)	9	27	-18	-66.7
Operating income	**4,410**	**4,731**	**-321**	**-6.8**
Personnel expenses	-1,575	-1,675	-100	-6.0
Other administrative expenses	-903	-992	-89	-9.0
Adjustments to property, equipment and intangible assets	-6	-4	2	50.0
Operating costs	**-2,484**	**-2,671**	**-187**	**-7.0**
Operating margin	**1,926**	**2,060**	**-134**	**-6.5**
Net adjustments to loans	-572	-803	-231	-28.8
Other net provisions and net impairment losses on other assets	-22	-40	-18	-45.0
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**1,332**	**1,217**	**115**	**9.4**
Taxes on income	-482	-444	38	8.6
Charges (net of tax) for integration and exit incentives	-10	-4	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)	**839**	**768**	**71**	**9.2**

(millions of euro)

	30.06.2019	01.01.2019	changes	
			amount	%
Loans to customers	207,661	211,491	-3,830	-1.8
Direct deposits from banking business	195,425	191,588	3,837	2.0
	30.06.2019	**31.12.2018**	**changes**	
			amount	**%**
Risk-weighted assets	89,460	91,542	-2,082	-2.3
Absorbed capital	8,275	8,468	-193	-2.3

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 4,410 million euro in the first half of 2019, equal to around half of the Group's consolidated operating income, down 6.8% on the same period of the previous year. Specifically, there was a reduction in net fee and commission income (-6.4%), particularly in the assets under management and bancassurance segments. The lower placements of asset management products were only partially offset by the higher placements of third-party bonds and certificates. Net interest income was down by 6.4%, due to the lower contribution from loan volumes, mainly concerning short-term loans, and from the hedging of core deposits.

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 2,484 million euro, were down significantly (-7%) thanks to the savings in personnel expenses, due to the reduction in the average workforce, and 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. As a result of the changes described above, the operating margin amounted to 1,926 million euro, down 6.5% on the same period of the previous year. In contrast, gross income, amounting to 1,332 million euro, was up 9.4% due to lower adjustments to loans. After allocation to the Division of taxes of 482 million euro, charges for integration of 10 million euro and the effects of purchase price allocation for 1 million euro, net income came to 839 million euro, up 9.2%.
In terms of quarterly development, the operating margin remained substantially stable on the first quarter 2019, and net income decreased due to higher adjustments to loans.

The balance sheet figures at the end of June 2019 showed stability in intermediated volumes of loans and deposits from the beginning of the year. More specifically, loans to customers, amounting to 207,661 million euro, decreased by 3.8 billion euro (-1.8%), mainly due to the decrease in the short-term component, especially to businesses. Direct deposits from banking business, amounting to 195,425 million euro, were up (+3.8 billion euro, or +2%) in the amounts due to customers component, mainly due to the higher liquidity on deposits held by individuals and, to a lesser extent, businesses

Business

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

Mission

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

Organisational structure

Retail Individuals and Businesses Sales & Marketing, SME Sales & Marketing and Multichannel Integration	Overseeing the Retail sector, which consists of the segments Retail Individuals (families and other individuals with financial assets of up to 100,000 euro) and Retail Businesses (businesses with less complex requirements), the Personal area (individual customers with financial assets of between 100,000 euro and 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less) as well as multi-channel services for customers and the Network.
Mediocredito Italiano	Specialised in medium-term lending and leasing in the area of ordinary and subsidised operations, as well as factoring, advisory services and structured finance transactions to support the needs of investment, development and innovation of businesses and the local areas.
Banca 5	A "proximity bank", linked with a non-captive network of points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Impact Department	Aimed at developing the initiatives of Impact Bank and serving non-profit organisations.

Distribution structure

Approximately 3,600 branches, including Retail and Business branches, distributed broadly throughout Italy, and Impact branches dedicated to the non-profit sector.
The territorial structure is divided into 8 Regional Governance Centres, in each of which there are (to favor the commercial focus and guarantee a better control of the service level) three Commercial Managers, specialized for "commercial territory" (Retail, Personnel and Business), which report directly to the Regional Director and that coordinate around 400 commercial areas.

As part of the programme set out in the Business Plan to simplify the Group structure by gradually reducing the number of legal entities, the following were incorporated into Intesa Sanpaolo: Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna and Cassa di Risparmio di Pistoia e della Lucchesia from 25 February 2019, Banca Apulia and Banca Prossima from 27 May 2019.

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

Investment

The diversification of customer portfolios continued according to the need-based approach (spending, reserves, investment and pension) and the Recommended Portfolios. The offer of investment products was extended by: 50 new placement windows and 9 fixed-term funds; the new portfolio management service "Eurizon GP Collection"; the Class I policy "Sicuro & Dedicato", reserved to customers that held the "Orizzonte7Anni" policy, which expired on 31 December 2018; the multi-line policy "Infondi Stabilità Plus$_{\text{Insurance}}$"; the unit-linked policy "Doppio Centro$_{\text{Insurance}}$"; the restyling of "Base Sicura Tutelati" and "Penso a Te"; and the placement of 24 certificates issued by Banca IMI and a bond of third-party issuers.
Customers of "Valore Insieme", the advanced advisory service for Retail and Personal customers, divided into three packages which, using a detailed analysis of customer requirements, assists them by offering customised solutions, have been offered the "Best Expertise" portfolios, with three proposals comprising a selection of 10-15 mutual funds that represent the best management expertise of Eurizon Capital SA and Epsilon SGR.

Loans

Development continued of "PerTe Prestito Diretto", the special-purpose loan for multi-channel current account holders, through new agreements signed with merchants of goods or services, in order to offer customers an ever-increasing range of products and services, at 0% APR and Annual Effective Global Rate. The "Finanziamento al Condominio" product was also restyled, providing greater flexibility, extending its duration up to 10 years, in line with tax incentives such as Ecobonus and Sismabonus, simpler credit granting rules to favour the disbursement of the financing, a commercial initiative with subsidised rates and the execution of agreements with Enel X, Tep/Snam and Anaci, trade associations of condominium administrators, for the purpose of promoting energy efficiency measures and anti-seismic works on buildings.

Mortgages

The comprehensive, flexible range of mortgage loans for private individuals covers all aspects of customers' "home ownership dreams and needs" with innovative products such as the possibility of obtaining a mortgage for up to 100% of the value of the property. In April, that option was extended to all customers, irrespective of their age, in line with the changed socio-economic context, in which many customers cannot put together an appropriate amount of money for the down payment, and have to postpone their purchase.

Protection

XME Protezione, the insurance solution which, in a single policy, protects the most important areas of life – Health, Home and Household – can also be subscribed from home, through remote and out-of-branch offerings. In response to the Italian population's growing need for healthcare, in partnership with Previmedical, Intesa Sanpaolo is offering the innovative digital service "XME Salute". Created in partnership with Intesa Sanpaolo Smart Care, the new service allows customers to book medical services, by choosing from a large network of authorised private structures and doctors, and quickly receive confirmation of the booking, with discounted prices.
The "Tutela Business" range, a line of insurance solutions designed for retail businesses and small and medium enterprises operating in various industries, and which aims to ensure their daily operations and protect their capital in case of unexpected events, was expanded with the new "Pronto Intervento Aziende" service, to manage and limit damages caused by unpredictable events and enable companies to restart business operations as soon as possible.

Young people

"Per Merito" is the new loan targeted to students resident in Italy who intend to continue their education beyond a high school diploma, which does not require personal or family member guarantees, as Intesa Sanpaolo provides a guarantee to the student, through the Impact Fund, also overcoming the guarantee requirement of individual universities. This product provides a credit line for up to five years, differentiated based on whether the student is resident in the university's municipality and by type of degree, and the possibility to repay the loan using a personal loan of up to 30 years.
In the half year, the range of customers that can take advantage of the beneficial conditions dedicated to young people has been expanded, through the increase in the age limit to sign up for XME Conto to 35.
As part of the Group's contribution of training and creating opportunities for young people that are looking for work, the Bank has renewed the "Z Lab" training project. This project offers a range of laboratory activities, active learning and trial experiences at the bank, as part of the "Processes for transversal skills and orientation" (the former Alternanza scuola-lavoro work-study project), to favour knowledge of the working world among young people in the last three years of high school, and, in partnership with Generation Italy, the Bank has already launched the Giovani e Lavoro programme, to offer free, targeted training. Intesa Sanpaolo was also a main sponsor of the 2019 Festival dei Giovani.

Intesa Sanpaolo Casa

During the half year, Intesa Sanpaolo Casa, the Group company dedicated to residential real estate brokerage services, expanded its operations by launching the "Exclusive" service, offering expert advisory services and assistance to owners of prestigious properties. The Company also entered the new buildings segment with a dedicated service, offering construction company customers high-value advisory services.

Multichannel Project

In the half year, the significant trend of growth in usage of the ISP Mobile App gained additional strength: 8.8 million multi-channel customers, of which around 4.7 million active users on the App. In addition, more than 4.2 million customers have activated O-Key Smart, the authentication method that allows them to access and authorise transactions with the utmost security, also using fingerprints or facial recognition. Customers who do not use a smartphone can choose O-Key SMS, a text message for authentication solution adopted by 153 thousand customers.
Almost all the products in the retail catalogue, including current accounts, payment cards, personal loans and non-banking products as well, such as smartphones, tablets and PCs, can be purchased via Internet Banking and/or the Mobile App.
The offering available online expanded with the acquisition of the physical piggy bank, XME Dindi, and the subscription of XME Salute and "Digifattura", a modular product for managing the entire electronic invoicing process (receivables and payables) and storing such invoices pursuant to law. The product comes in two versions that can be adapted to the needs of customer companies of any size, and complies with the obligation of electronic invoicing for all transactions carried out between parties resident in Italy from 1 January 2019. Thanks to the newly introduced possibility of signing contracts also using the ISP Mobile App, the remote offering includes the car/motorcycle policy, the IDD insurance questionnaire and debit and credit cards.
The innovative payment service Bancomat Pay, used for fully secure payments in shops and online by entering your telephone number, as well as for transferring money to and from the numbers in your contacts, grew further: it has around 5 million customers and is already available at many private merchants and the public administration. The option to pay using Apple Pay has also been expanded, with additional functions, extending the possible user base. To support the dissemination of digital payments and their acceptance by merchants, have been released a new portal that integrates virtual payment solutions and the new application XME Commerce.
The Online Branch network continued to grow, effectively integrating the various contact channels (telephone calls, emails, chats, video chats and social networks), to meet the needs of customers that are increasingly interested in the digital world: around 1,000 managers in 18 branches offer customers operational and commercial support. In addition to customer services, the Online Branch network is an actual sales channel, due to its remote offerings, which allow customers to "remotely enter into contracts", supplementing the offerings at the physical branches. Moreover, the Remote Manager service offers personalised remote advisory services for specific segments, in cooperation with the network.

Agreements

The Intesa Sanpaolo Group confirmed its adoption of the new Agreement for Credit, taking effect in January 2019 and valid up to 31 December 2020, signed by the Italian Banking Association and the main trade associations. With the "Recovering Companies 2.0" initiative, it once again offers the possibility for SMEs "in good standing" to suspend principal payments on their loans for a maximum of twelve months and extend the repayment plans of their mortgage loans and due dates of their short-term loans and credit for farm activities.
The roll-out at local level, in cooperation with the regional Confindustria associations, of the 2017-2019 three-year agreement "Progettare il futuro" signed with Confindustria Piccola Industria, continued. This agreement aims to promote acceleration, digital transformation and competitiveness, and provides companies with up to 90 billion euro, to make use of the opportunities provided by the "fourth industrial revolution".
In the half year, Intesa Sanpaolo signed new agreements with trade associations (Confcommercio, Federlegno Arredo, Confartigianato Imprese Marca Trevigiana, Confartigianato Imprese Udine, Federazione Italiana Pubblici Esercizi, Confederazione Nazionale dell'Artigianato e della piccola e media impresa), which provide targeted support to the member companies and their customers. Renewing its cooperation with the European Investment Bank (EIB), Intesa Sanpaolo signed a new agreement to provide new resources to support Italian midcap companies and SMEs, in cooperation with the EIB, with a specific focus on investments in projects linked to the circular economy, with a total limit of 1 billion euro. As part of the agreements with the EIB Group, operations with the EIF regarding the Innovfin guarantee continued, and a new agreement was signed to provide a 50% guarantee to support companies that invest in Climate Change projects, with a limit of 280 million euro.

Internationalisation

Intesa Sanpaolo supports Italian companies throughout the world, supported by a network operating in all the main markets: present in around 40 countries, it covers 85 countries due to partnership agreements with other banks. The Bank provides Italian businesses with a team of specialists operating directly in the local area, ensuring support for internationalisation due to close relationships with the relationship managers in Italy and the colleagues of the Italian Desk in the foreign network, it supports the customer's international expansion by organising events in Italy and abroad and participating alongside companies in trade missions and international trade shows and promotes agreements with institutions, to favour the international development of businesses and their operations.

Loans

In relation to the measures contained in the 2019 Budget Act and the “Decreto Crescita” regarding tax incentives for investments in new operating assets required for technological upgrading (Super-depreciation, Hyper-depreciation, Tax credit for 4.0 training expenses, Intangible Capital Fund), Intesa Sanpaolo proposes solutions to support business growth during the fourth stage of the industrial revolution, which involve, in addition to specialist support, medium/long-term loans, with various possible combinations available, which ensure financial support to businesses’ investment plans.
Supplementing the commercial offering dedicated to this segment, for companies registered in the specific register of “innovative start-ups", to support their growth processes, “Convertibile Impresa” is now available. This is a medium/long-term loan to support innovation, backed by the Direct Guarantee from the Guarantee Fund for SMEs pursuant to Italian Law 662/96, granting the Bank the right, on the occurrence of a specific trigger event, to convert the credit into an equity investment in the company.
To favour access to sources other than bank borrowing, Mediocredito Italiano offers Italian SMEs the Bond product, which provides access the capital made available by institutional players, which otherwise could not be accessed. As part of the partnership with Elite (a Borsa Italiana company), in June, through the Corporate Finance structure, the Group launched the new Lounge project, an international programme of the London Stock Exchange Group created at Borsa Italiana in cooperation with Confindustria, to “train” companies that intend to be listed, through customised training processes and services to trigger cultural and organisational changes.
The Intesa Sanpaolo Group confirmed its concrete, tangible commitment to supporting households and businesses damaged by environmental disasters or extraordinary weather events occurring in Italy, with specific focus on agricultural companies which, more than others, are penalised by exceptional weather events, by providing new subsidised loans dedicated to restoring damaged structures (homes, shops, artisan laboratories and company offices), suspensions of payments on outstanding loans, actions in the area of protection and preferential, simplified and expedited procedures for new instruments and, in relation to the collapse of the Morandi bridge in Genoa, the unilateral cancellation of mortgage loans on buildings that cannot be accessed or have been demolished.

Sviluppo Filiere

The “Programma Filiere”, launched by Intesa Sanpaolo in 2015, aimed at favouring access to credit for suppliers, by promoting the fact that they belong to a production chain, continued development, exceeding 660 participating lead companies, with a potential of 15,500 suppliers, for a turnover of over 70 billion euro.

Intesa Sanpaolo Forvalue

Intesa Sanpaolo Forvalue, specialising in non-financial services by providing high value added services to SMEs that intend to capture new market opportunities, has been operational since February, through the Simple Rent brand, also in the market of rental of operating assets, in partnership with Euroconsult Rental Division. With long-term rental, customers move from owning specific assets to using them, by paying a fully deductible rental fee, and are able to obtain the newest, most technologically up-to-date products. The Simple Rent brand also entails the offering of cars and commercial vehicles, and was gradually extended to retail companies during the half year.

New service model

To strengthen the role of Intesa Sanpaolo as the leading bank for the Italian business system by diversifying the customer service methods and structuring the offering based on businesses’ needs, the development of the service model for the Businesses area, aimed at ensuring better identification of customers, developing a more effective, distinctive offering and providing higher quality and more expert service to customers has been launched since the end of January. In line with the new service model, the new layout of business branches was released, according to the criteria that have ensured the success of the formula for the retail segment since the end of 2015.

Product companies

In the first half of 2019, Mediocredito Italiano recorded a sales volume of medium/long-term products of 2.6 billion euro, (-33.1% compared with the same period of 2018), whilst factoring turnover was 29 billion euro (-1.6%).
Mediocredito Italiano disbursed loans totalling 2 billion euro (-34.7% compared to the first six months of the previous year). With 1.9 billion euro of loans disbursed (-27%), the Banca dei Territori Division accounts for 96.8% of total volumes, whilst the Corporate and Investment Banking Division, with 64 million euro (-84%), represents 3.2% of volumes disbursed. "Subito Mediocredito" accounted for 20.8% of the Banca dei Territori Division's lending.
The Specialist Desks dedicated to the principal economic sectors generated medium/long-term loan disbursements of 361 million euro (17.9% of the total disbursed during the period), down by 139 million euro compared with the same period in 2018. During the half-year, the Structured Finance Advisory organisational unit originated loans of 284 million euro (320 million euro in the same period of the previous year).
In the first six months of the year, Mediocredito Italiano entered into new lease contracts for 552 million euro (-26.2% compared to the first half of the previous year). Contracts entered into by customers of the Banca dei Territori Division amounted to 507 million euro (-139 million euro), representing 91.8% of total volumes. Customers in the Corporate Division signed contracts totalling 33 million euro (-53 million euro), equal to 6% of total volumes. Among lease products, instrumental leases and real estate leases accounted for 44% and 47% of total volumes, respectively. The weight of motor products came to 8%, whereas the contribution of energy products continued to be absolutely marginal.
Turning to the factoring business, in the first half of 2019 Mediocredito reported a turnover of 29 billion euro (-1.6% on the same period of 2018), retaining its position as one of the leading operators by turnover. Non-recourse factoring accounted for 89.7% of factoring business, up compared to the same period of the previous year. At the end of June 2019, the amount outstanding increased to 13.7 billion euro (+2.9% compared with June 2018) and advances amounted to 11.5 billion euro (+4.8%). The international activities related to the import and export factoring segments (both directly and intermediated through the correspondent bank members of Factors Chain International) and the foreign-on-foreign operations, predominantly conducted under the freedom to provide services in other European Union countries. The volumes generated amounted to 6.4 billion euro (-10.7% on the first six months of 2018), accounting for 22% of total turnover.

Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.
In the first half of the year, Banca 5 consolidated its collection and payment services business, remaining the preferred banking partner to non-captive points of sale and expanding the services it offers to retail customers, in keeping with the strategic objectives set out in the 2018-2021 Business Plan, by setting up 4,500 non-captive points of sale to distribute bearer prepaid cars, launching the new registered card "LIVE" and extending payment services on the PagoPa circuit and withdrawal and deposit services for Intesa Sanpaolo customers to the entire network. The bank has approximately 16,500 non-captive customer points of sale, in line with the December 2018 figure, spread throughout Italy and approximately 25,000 retail customers who have downloaded the Banca 5 app, for a total of 30,000 cards sold and 2,000 active payment accounts. To support growth in revenues and strengthen Banca 5's position, the withdrawal and deposit service for customers of other banks, offered at non-captive points of sale, is being set up. The new "SMART POS" technology is being distributed which, through the new commercial offering, will expand the geographical reach of the network.

Impact Department

The Impact Department is the new department of Banca dei Territori, whose mission is to manage non-profit customers and coordinate the activation and management of Social Impact Funds. At the end of February, the first social impact financing action was launched: "Per Merito", a loan without collateral for university students resident in Italy. On 27 May 2019, by way of merger by incorporation, Banca Prossima was incorporated into the Impact Department, as an Operational Coordination structure for the Non-Profit Sector, with 83 local branches and 232 specialists distributed throughout Italy.
During the half-year, the bank continued acquiring new customers, with around 65,000 customers at the end of June 2019. Financial assets amounted to 5.6 billion euro, of which 3.9 billion euro in direct deposits, while lending operations presented an approved amount of 2.8 billion euro (of which 2.1 billion euro had been used).
The business plan entailed the implementation of around two dozen initiatives to develop relationships with non-profit organisations, as well as a customer communication initiative to reassure them of the continuity of their relationships with their relationship managers. In the half-year, the preparatory activities were completed for the marketing of the new EIB funding exclusively dedicated to the Non-Profit Sector, for a total of 50 million euro. Lastly, the process of integrating the Terzo Valore portal into For Funding was completed, with the migration of projects to the new platform, while the activities necessary to relaunch the posting of new crowdfunding projects are under way.

Corporate and Investment Banking

(millions of euro)

Income statement	30.06.2019	30.06.2018	changes amount	changes %
Net interest income	874	816	58	7.1
Net fee and commission income	463	473	-10	-2.1
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	740	812	-72	-8.9
Other operating income (expenses)	2	4	-2	-50.0
Operating income	**2,079**	**2,105**	**-26**	**-1.2**
Personnel expenses	-202	-201	1	0.5
Other administrative expenses	-287	-293	-6	-2.0
Adjustments to property, equipment and intangible assets	-15	-16	-1	-6.3
Operating costs	**-504**	**-510**	**-6**	**-1.2**
Operating margin	**1,575**	**1,595**	**-20**	**-1.3**
Net adjustments to loans	-110	-15	95	
Other net provisions and net impairment losses on other assets	-12	-4	8	-
Other income (expenses)	3	-	3	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**1,456**	**1,576**	**-120**	**-7.6**
Taxes on income	-471	-439	32	7.3
Charges (net of tax) for integration and exit incentives	-2	-2	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**983**	**1,135**	**-152**	**-13.4**

(millions of euro)

	30.06.2019	01.01.2019	changes amount	changes %
Loans to customers	112,929	110,642	2,287	2.1
Direct deposits from banking business (a)	102,578	102,449	129	0.1
	30.06.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	88,046	86,797	1,249	1.4
Absorbed capital	8,148	8,032	116	1.4

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 half of 2019, the **Corporate and Investment Banking Division** recorded operating income of 2,079 million euro (representing about 20% of the Group's consolidated total), down 1.2% compared to the same period of last year.
In detail, net interest income of 874 million euro was up (+7.1%). 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 463 million euro, fell by 2.1%, mainly due to the performance of the commercial banking segment. Profits on financial assets and liabilities designated at fair value, amounting to 740 million euro, was the revenue caption with the highest decrease compared to the first six months of 2018: -72 million euro, equal to -8.9%, partly due to 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 504 million euro, down on the same period of 2018 (-1.2%), due to lower administrative expenses and amortisation and depreciation. As a result of the above revenue and cost trends, the operating margin decreased by 1.3% to 1,575 million euro. Gross income, amounting to 1,456 million euro, was down 7.6%, partly due to higher adjustments to loans. Lastly, net income came to 983 million euro (-13.4%).

In the second quarter of 2019, the Corporate and Investment Banking Division recorded sustained growth in operating margin compared to the first quarter, driven by the growth in revenues and the reduction in operating costs, and a significant improvement in gross income and net income.

The Division's intermediated volumes increased compared to the beginning of the year (+1.1%). In detail, loans to customers, amounting to 112,929 million euro, grew by 2.3 billion euro (+2.1%), 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 102,578 million euro, remained substantially stable: the increase in securities issued, specifically those of the Irish and Luxembourg subsidiaries and financial institutions, and the growth in certificates of Banca IMI were offset by the decrease in repurchase agreements.

Business

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

Mission

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

Organisational structure

Global Corporate Department

The Department develops and manages relationships with Italian and foreign corporates with diverse needs and multinational presence, and with domestic Public Entities. It ensures the provision of a global, integrated offering of products and services by specific economic sector for customers under its remit, integrating traditional commercial banking products and services with those of investment banking and capital markets, pursuing cross-selling of products and services overseen by the Corporate and Investment Banking Division, by other Divisions and by the Group's product companies. It avails itself centrally of the commercial action of the Industry units, and locally of the Italian network (Areas) and of the international network of the International Department. The coverage is also completed through two units specifically dedicated to strategic investment banking deals to support industries (Global Strategic Coverage) and geographical areas (Network Origination Coverage).
The specialisation by industry includes all industrial sectors: Automotive & Industrials; Basic Materials & Healthcare; Energy; Food & Beverage and Distribution; Infrastructure & Real Estate Partners; Public Finance; Retail and Luxury; Telecom, Media and Technology. The Business Solutions industry also manages highly complex customers, transversally across the various sectors.

International Department

The Department ensures the international development of the Division in agreement with the other relationship and product structures, ensures the correct management of operational and commercial activities of the international branches and representative offices and oversees the management of the international subsidiary banks (Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Brasil - Banco Multiplo and Banca Intesa - Russia), ensuring their overall coordination.

Financial Institutions Department

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

Global Transaction Banking Department

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

Proprietary Trading

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

Global Markets and Investment Banking & Structured Finance

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

Distribution structure

In Italy, the Corporate and Investment Banking Division has a total of 27 branches dedicated to corporate customers and public customers. At the international level, it operates in 25 countries in support of the cross-border operations of its customers through a specialised network of branches, representative offices and subsidiaries that engage in corporate banking activity.

Global Corporate Department

In the first half of 2019, the Global Corporate Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of investment banking transactions to the benefit of Italian and international customers. Support continued to be provided to corporate and public customers, drawing on the specialised expertise developed with the Industry model and the strengthening of origination, thanks to two specialised teams dedicated to developing strategic investment banking and structured finance transactions. In accordance with the International Growth project – a part of the Business Plan – international commercial growth efforts continued in support of important international counterparties.
The Group participated in numerous syndicated loans, including those to FCA, EGA, BASF, Walgreen, Volkswagen Financial Services, CNH, General Motors, LVMH, CEPSA, Coca-Cola, Terna, Iberdrola, Prysmian, Merlin Properties and Acciona. Some of the transactions were conducted as part of the Originate to Share framework. Significant support was also provided to the development of Fincantieri contracts through a bilateral loan.
Intesa Sanpaolo also finalised several deals in the area of the Circular Economy, including a transaction with Maire Tecnimont to finance an innovative plastic recycling plant and, on the international market, financing to Thames Water, the UK's largest water and wastewater company, and a transaction with a European player that is a leader in the large-scale retail sector.
Attention should also be drawn to support for acquisition financing in important transactions completed during the half year both in Europe and in the rest of the world: the acquisition by Haier Group of Candy, by Brookfield of Healthscope and of a stake in Terminal Investment Limited by MSC. The refinancing of Geely (relating to the acquisition of Volvo), of Grandi Stazioni Retail and that of the Techgen Group were finalised. The Bank acted as lender for project financing transactions, including those of Metro 5, Tangenziale Esterna, NextEnergy and HES International.
Regarding M&A, the Group acted as financial advisor in the acquisition of Gelit by Progressio Sgr, Consilium Sgr and MMM.
In debt capital markets operations, the Bank acted as bookrunner in the FCA Bank, Enel, Abertis, TIM, RCI Banque, General Motors, Thyssenkrupp, Saint-Gobain, Unibail-Rodamco, Deutsche Bahn, Vinci, LVMH, Telefonica, Coca-Cola, IGT, Eutelsat, Air Liquide, Erg, Acea, EP Infrastructure and Gazprom bond issues, joint bookrunner and sole rating advisor in the issue of Acquirente Unico/OCSIT, as joint bookrunner in the issue of Green Bonds by Terna, as well as in the issue of the Climate Action Bond by Snam and as co-manager in the AB Inbev bond issue.
Commercial development actions are under way with a view to maximising synergies on the mix of products and services, both in Italy and abroad. The initiatives include a focus on developing domestic and international confirming. This solution optimises the management of working capital within a manufacturing chain composed of a lead buyer and its suppliers, also using a dedicated platform developed by Mediocredito last year in partnership with a leading foreign operator, which is provided to customers.

International Department

In the first half of 2019, the International Department continued work on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets, specifically on the Australian market in view of the upcoming transformation of the current representative office of Sydney into a corporate branch and in the United Arab Emirates, thanks to the significant increase in the endowment capital of the Abu Dhabi branch, approved last April.
As part of projects aimed at increasing competitiveness on customers, coverage and products in markets of strategic interest, the Department defined specific interventions to optimise synergies and opportunities for cross-selling, including the launch of new product desks for selected European branches and new initiatives to further develop business customer operations of Banca dei Territori on the international network.
In that context, the Accelerate programme was also launched, with the goal of boosting business with international customers, as part of the International Growth strategic initiative. In June a Memorandum of Understanding (MoU) was signed with Rubicon Capital Advisors to jointly develop business opportunities within the infrastructure and energy markets, and to strengthen the Group's origination and distribution platform.
The Division's current international network is present in 25 countries through 14 wholesale branches, 11 representative offices and 4 corporate banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A. and Banca Intesa - Russia).

Financial Institutions Department

In the first six months of 2019, the Financial Institutions Department, in synergy with Banca IMI, continued to assist its Italian and international customers in particularly complex and strategically important operating and extraordinary finance deals. In the domestic and international banking sectors, it provided advice and financing in the restructuring and sale of problematic assets, as well as in transactions to optimise capital structure, acted as global coordinator in listing operations, as joint bookrunner in senior debt issues and provided strategic advice. These include operations such as Nexi's IPO on the MTA market of Borsa Italiana and the refinancing of debt relating to its acquisition, the role of joint bookrunner in the senior euro bond issue of Wells Fargo and the issue of a Tier 2 bond by LBBW.
In the first half, non-banking financial institution customers recorded a positive level of transactions. In that area, it is important to note the transactions on the primary bond market, including the 30-year issue for the Ministry of the Economy and Finance and the retail bond for CDP, the securitisations of performing and non-performing loans, for which the Group maintains leadership in Italy (Dynamica, Vivibanca) and also operated abroad, specifically in Spain (Cerberus and Lone Star). The Group also handled financing transactions for Do Bank and Azimut, to support growth projects, in addition to refinancing operations for REV and Algebris. Lastly, the private placement of several assets was carried out on insurance customers and, in the area of commercial banking, several important mandates were obtained in the sector of bills of exchange.

In the period, the Bank continued to play a highly active role in commodity financing, specifically in Russia, Egypt and China, participating in operations in favour of Egyptian General Petroleum Corporation, Uralkali, Suek and Shandong Wonfull Petrochemical Group. In Asia, where a strategy for progressive growth has been under way for some time, the Bank also participated in a buyer's credit transaction in favour of the MSC Group, backed by a guarantee from Sinosure. Supply chain financing and receivables discounting remain highly active. In these sectors, the Group participated, both directly and through third-party platforms, in discount programmes for numerous American and European customers, including Dell, Keurig, AT&T, Virgin Media and Vodafone.
Private equity funds reported high business volumes, with the Group participating in numerous transactions, including Investindustrial/Italcanditi, Progressio/Gelit and Ambienta/Phoenix in Italy and those concerning the consortium headed by Apax-Warburg Pincus for Inmarsat and Carlyle for the acquisition of Cepsa, on the international market. Business was also developed with Sovereign Wealth Funds, including the participation in financing lines to Vision Fund and to Qatar Investment Authority, relating to real estate assets in London. Lastly, direct lending to leading Italian and international private equity funds increased.

Global Transaction Banking Department

In the first half of 2019 the Global Transaction Banking Department focused on developing the corporate banking channel for SMEs and corporate customers, to provide an experience that increasingly meets the needs of portal users: the portal has transformed from operational to relational, with the introduction of the Client Journey, dedicated to managing company treasury and supporting internationalisation.
Consistent with the PSD2 regulations, the Department released the solution for third parties to access the portal through the CBI Globe gateway.
The integrated offering of services was launched, ranging from execution to post trading, thanks to synergies with Banca IMI, to simplify processes and optimise costs for customers.
Lastly, the development of innovative services in the Payments area continued, for the purpose of integrating commercial API, using third-party solutions to digitalise the payment chain.

Proprietary Trading

During the first half of 2019, Proprietary Trading recorded a substantial break even of the levels of operating income and net income.
The risk exposure in structured credit products, which amounted to 2,018 million euro as at 31 December 2018, came to 2,974 million euro as at 30 June 2019, showing a net increase of 956 million euro. In particular, the exposure to funded and unfunded ABSs/CLOs at fair value went from 1,818 million euro in December 2018 to 2,391 million euro in June 2019, a net increase of 573 million euro.
The strategy for transactions in structured credit products during the half year 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 Hedge Fund portfolio as at 30 June 2019 amounted to 122 million euro in the trading book and 150 million euro in the banking book, compared to 146 million euro and 88 million euro recognised in December 2018. During the first half of 2019, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure.

Global Markets and Investment Banking & Structured Finance

The first half of 2019 was marked by the accommodating policy of the central banks and renewed tensions on the markets. In the Global Market Securities area, fixed income securities reported new lows in returns on the main government securities, a general interest in countercyclical corporate bonds and the penalisation of the financial segment, while equities were impacted by the reduction in global prices. The favourable of volatility on the markets resulted in an overall decrease in futures transactions, while business remained substantially stable in the ETF segment. The forex sector was also impacted by the low volatility in the first half. Lastly, the Market Hub worked on defining the partnership with the Azimut Group, promoting the integrated offer of execution and post trading services.
The activities carried out by the Global Market Solutions and Financing Unit confirmed Banca IMI's leadership position in Italy both in the structuring and active management of financial risk and in the securitisation and asset-based financing sectors. The unit structured and distributed solutions designed to optimise funding and economic and regulatory capital, deconsolidate assets and improve the net financial position of its customers. The unit also consolidated Banca IMI's presence abroad, participating in important loans to foreign investors to acquire portfolios of performing and non-performing assets in the main international jurisdictions.
The Finance & Investments Area based its operations on the expectations of weak growth in the main global economies and the easing of global financial conditions. In that context, it increased allocations in hard currency to take advantage of favourable risk/return levels, guaranteed the management of the liquidity position and monitored counterparty risk pricing to support the distribution of derivatives. Management of the proprietary portfolio generated significant returns, and investment transactions continued, with an increase in exposure in corporate, financial and securitisation securities in the HTCS and HTC portfolios, in the investment grade sector, mainly in the eurozone. Investments in equity instruments were further diversified in relation to geographic exposure and management style.
In the equity capital markets, Banca IMI maintained its coverage of the Italian market, acting as a joint global coordinator, joint bookrunner and sponsor for Nexi's IPO, the largest in Europe since the beginning of 2019. Banca IMI also acted as sponsor

in the admission to listing of the shares of Illimity Bank on the MTA market of Borsa Italiana and as Nomad in the business combination of SprintItaly with Sicit Group. Banca IMI also acted as specialist or corporate broker for numerous companies listed on the Italian market, confirming its leadership in that market segment.
In the debt capital markets, Banca IMI strengthened its position among European and international corporate issuers, with growth in volumes greater than the market average. Banca IMI consolidated its position on the domestic market, bringing it to a top position among competitors in terms of volumes placed. In the corporate investment grade segment, as bookrunner, Banca IMI handled the private placements of Davide Campari, Volkswagen Leasing and FCA Bank and the hybrid issue of ENEL. Operations in the Financial Institutions area involved the green bond of UBI Banca, the covered bond of VUB Banka and the issues of Erste Group Bank, LBBW and Wells Fargo. Banca IMI also acted as bookrunner in the retail issue of Cassa Depositi e Prestiti and in the 20-year BTP government bond of the Italian Republic.
In M&A Advisory, Banca IMI held significant roles in the infrastructure sector, working with ENAV in the acquisition of IDS' Air Division, in the financial institution sector, with Fondazione di Sardegna in the sale of assets to BPER and in the consumer & retail sector, as part of the acquisition of Gelit.
With regard to structured finance activities, the first half of 2019 recorded a strong trend in the renewables sector and in the acquisitions of infrastructure by specialised funds, though in a scenario of harsh competitive tension on pricing, further improving the Bank's international visibility. Banca IMI had an increasingly important role in operations in the EMEA area, specifically in circular economy transactions and in cutting-edge areas such as tech and fibre optics. In the real estate segment, intense specialised advisory and origination activity was carried out, both in Italy and abroad, aimed at structuring credit facilities in support of investments in the sector. In the leveraged and acquisition finance segment, a selective approach was maintained in the origination of new transactions, also focused on the Originate to Share approach. On the Italian corporate lending market, the bank participated in the structuring and organisation of important loans for leading Italian and international companies. Banca IMI also assisted customers with high standing in the commercial network to conclude structured finance transactions, in the role of mandated lead arranger.

International Subsidiary Banks

(millions of euro)

Income statement	30.06.2019	30.06.2018	changes	
			amount	%
Net interest income	679	641	38	5.9
Net fee and commission income	264	259	5	1.9
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	59	103	-44	-42.7
Other operating income (expenses)	-16	-13	3	23.1
Operating income	**986**	**990**	**-4**	**-0.4**
Personnel expenses	-263	-260	3	1.2
Other administrative expenses	-163	-162	1	0.6
Adjustments to property, equipment and intangible assets	-52	-55	-3	-5.5
Operating costs	**-478**	**-477**	**1**	**0.2**
Operating margin	**508**	**513**	**-5**	**-1.0**
Net adjustments to loans	-27	-25	2	8.0
Other net provisions and net impairment losses on other assets	-4	-4	-	-
Other income (expenses)	4	2	2	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**481**	**486**	**-5**	**-1.0**
Taxes on income	-96	-101	-5	-5.0
Charges (net of tax) for integration and exit incentives	-14	-8	6	75.0
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	-	1	-1	-
Net income (loss)	**371**	**378**	**-7**	**-1.9**

(millions of euro)

	30.06.2019	01.01.2019	changes	
			amount	%
Loans to customers	32,713	31,538	1,175	3.7
Direct deposits from banking business	41,635	39,384	2,251	5.7
	30.06.2019	**31.12.2018**	**changes**	
			amount	**%**
Risk-weighted assets	32,506	31,284	1,222	3.9
Absorbed capital	3,639	3,511	128	3.6

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 half of 2019, the Division's operating income came to 986 million euro, down slightly (-0.4%) on the same period of the previous year (-1.8% at constant exchange rates). A detailed analysis shows that net interest income came to 679 million euro (+5.9%), due to the performance reported by Bank of Alexandria (+27 million euro), CIB Bank (+9 million euro), Intesa Sanpaolo Bank Romania (+2 million euro) and Banca Intesa Beograd (+2 million euro). Net fee and commission income,

amounting to 264 million euro, was up (+1.9%), mainly attributable to Banca Intesa Beograd (+4 million euro). Among the other revenue components, profits (losses) on financial assets and liabilities designated at fair value, amounting to 59 million euro, decreased significantly (-42.7%) compared to the first six 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, worsened.
Operating costs, amounting to 478 million euro, remained at levels similar to those for the same period of 2018 (+0.2%; -0.9% at constant exchange rates): the slight increase in personnel and administrative expenses was almost entirely offset by lower amortisation and depreciation, mainly in the real estate sector.
As a result of the above revenue and cost trends, the operating margin decreased slightly (-1%) to 508 million euro. The same trend was recorded in gross income, which amounted to 481 million euro (-1%). The Division closed the first half of 2019 with net income of 371 million euro (-1.9%).
In the second quarter of 2019, the operating margin recorded an improvement compared with the first quarter, driven by increased revenues, which offset the increase in operating costs. Gross income was negatively impacted by higher adjustments to loans and other assets. On the contrary, net income recorded an improvement, as a result of more favourable taxation.

The Division’s intermediated volumes grew compared to the start of the year (+4.8%) owing to positive performance by both direct deposits from banking business (+5.7%), mainly in the securities issued component, and loans to customers (+3.7%).

In the first half of 2019, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, and information technology.
With the aim of reinforcing and optimising the international subsidiary banks' presence in their territories of reference, the implementation of the action plan for development of the Slovenian bank continued, within the framework of the South-Eastern Europe Hub (Croatia, Bosnia and Slovenia). With regard to the Central Europe Hub (Slovakia, Czech Republic and Hungary), the gradual alignment of the operating model and the strengthening of commercial synergies in the retail and corporate areas are under way. Lastly, integration activities have been completed, and the refocus is continuing in Moldova, while refocus activities are under way in Ukraine.
In commercial dealings, the pilot phase of the advisory model for investment services in Croatia and Slovenia has been completed, and its extension to the entire sales network has been launched, while the pilot phase is continuing in Slovakia and Hungary. With regard to the service model, in the first half of 2019 the programme for the adoption of the target distribution model of the Group in Slovakia, Croatia, Serbia, Hungary and Slovenia continued (63 branches have already been converted). Moreover, the preparatory activities have been launched to extend the model to Romania.
In information technology, the implementation of the target core banking system at the Serbian bank continued, and is currently in the final testing phase, and the analysis for the Slovak-Czech bank continued, while the transfer of the Hungarian bank's data centre to Italy was completed.
Lastly, with regard to digital services, during the half year, functionalities were expanded in Croatia, Hungary, Egypt and Albania, and the adoption of digital services in Slovenia entered the implementation phase, while the analysis is still under way in Romania.

Business

It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.

Mission

Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division.

Organisational structure

South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary.
Commonwealth of Independent States & South Mediterranean	Presence in Egypt, Ukraine and Moldova.

Distribution structure

1,011 branches in 12 countries.

South-Eastern Europe

In the first half of 2019, the operating income of the **Privredna Banka Zagreb** group (including Veneto Banka d.d.) amounted to 244 million euro, down on the same period of 2018 (-2%), due to the unfavourable performance of net interest income and other operating costs, not completely offset by the increase in net profits (losses) on financial assets and liabilities designated at fair value. Operating costs of 98 million euro decreased (-4.1%), due to the decreasing trends in amortisation and depreciation and personnel expenses. The operating margin came to 146 million euro (-0.5%). Gross income amounted to 123 million euro (+1.2%), benefiting from the lower adjustments to loans, while net income was 92 million euro (+1.2%).

Banca Intesa Beograd, including Intesa Leasing Beograd, generated an operating margin of 88 million euro, up 13.1% on the first half of 2018. Operating income increased by 8.7%, primarily due to the performance of fee and commission income, other operating income and net interest income. Operating costs increased slightly (+1.3%) compared with the first six months of the previous year. Gross income amounted to 74 million euro (+14.8%), while net income was 56 million euro (+18.8%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed the first half of 2019 with an operating margin of 12 million euro, up on the first half of the previous year (+7.3%). This performance is attributable to the increase in operating income, in the presence of substantial stability in operating costs. Gross income, amounting to 11 million euro, increased by 5.9%, while net income came to 9 million euro (+8.5%).

Intesa Sanpaolo Bank Albania (including Veneto Banka Sh.A.) reported an operating margin of 10 million euro, a significant increase on the same period of 2018 (+89.8%), due to the growth in revenues and the decrease in operating costs. Gross income, amounting to 12 million euro, and net income (8 million euro) more or less doubled on the same values of the previous year.

Intesa Sanpaolo Bank Romania reported an operating margin of 10 million euro, triple of that of the first six months of 2018, due to the increase in operating income (+15.9%), mainly attributable to higher interest income, and lower costs (-17.8%). The company closed the half year with net income of 12 million euro, compared to a net loss of 1.4 million euro in the first half the previous year.

Central-Eastern Europe

Intesa Sanpaolo Bank (Slovenia) reported an operating income of 37 million euro, up by 7.4% on the first half of 2018, benefiting from the positive performance of other operating income, net interest income and fee and commission income. Operating costs increased slightly (+1.3%) on the first half of the previous year. Gross income, amounting to 20 million euro, grew by 72%, benefiting from the decrease in net adjustments to loans, while net income almost doubled, amounting to 14 million euro.

The **VUB Banka** Group reported an operating margin of 117 million euro, down on the same period of 2018 (-29.3%) as a result of a decrease in operating income (-19.3%) against a decrease in operating costs (-5.1%). Gross income amounted to 97 million euro, down by 31.1%. Net income came to 57 million euro (-38.4%).

The **CIB Bank** Group had operating income of 82 million euro, up by 3% on the first half of 2018, due to the positive performance of net interest income. Operating costs decreased (-2.8%), especially administrative expenses. Net income came to 12 million euro, down 66.8% on the same period of 2018, mainly due to lower recoveries on loans.

Commonwealth of Independent States & South Mediterranean

Pravex reported a negative operating margin (-1.6 million euro), compared with -1.5 million euro in the first half of 2018, as a result of the increase in operating costs (+9.2%), specifically of personnel expenses, against higher operating income (+9.6%) attributable to the positive performance by net interest income. The net loss of -0.7 million euro compares with net income in the first half of 2018 that essentially broke even, due to higher net provisions and adjustments to other assets.

Bank of Alexandria, which benefited from the revaluation of the Egyptian pound, reported an operating margin of 101 million euro, up by 17.8% on the first six months of the previous year (+8% at constant exchange rates). Operating income of 166 million euro increased (+20.4%, +10.3% at fixed exchange rates), due to the performance of net interest income and profits (losses) on financial assets and liabilities designated at fair value. Operating costs rose (+24.5%; +14% at constant exchange rates) across all expense captions. Net income came to 76 million euro, up by 16.2% on the first half of 2018 (+6.4% at constant exchange rates).

Private Banking

(millions of euro)

Income statement	30.06.2019	30.06.2018	changes	
			amount	%
Net interest income	89	76	13	17.1
Net fee and commission income	843	856	-13	-1.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	28	15	13	86.7
Other operating income (expenses)	2	4	-2	-50.0
Operating income	**962**	**951**	**11**	**1.2**
Personnel expenses	-172	-167	5	3.0
Other administrative expenses	-89	-90	-1	-1.1
Adjustments to property, equipment and intangible assets	-27	-22	5	22.7
Operating costs	**-288**	**-279**	**9**	**3.2**
Operating margin	**674**	**672**	**2**	**0.3**
Net adjustments to loans	-2	-	2	-
Other net provisions and net impairment losses on other assets	-23	-12	11	91.7
Other income (expenses)	9	9	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**658**	**669**	**-11**	**-1.6**
Taxes on income	-183	-198	-15	-7.6
Charges (net of tax) for integration and exit incentives	-9	-10	-1	-10.0
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)	**465**	**461**	**4**	**0.9**

(millions of euro)

	30.06.2019	01.01.2019	changes	
			amount	%
Assets under management (1)	118,835	111,955	6,880	6.1

	30.06.2019	31.12.2018	changes	
			amount	%
Risk-weighted assets	8,404	7,670	734	9.6
Absorbed capital	833	755	78	10.3

(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 half of 2019, the Division generated gross income of 658 million euro, down (-11 million euro, or -1.6%) compared with the corresponding period in 2018, due to higher operating costs (+9 million euro) and higher provisions (+11 million euro) and adjustments to loans (+2 million euro), in the presence of an increase in operating income (+11 million euro).
In detail, the performance of operating income was attributable to an increase in net interest income (+13 million euro) and profits (losses) on financial assets and liabilities designated at fair value (+13 million euro), almost half of which was offset by the decrease in fee and commission income (-13 million euro), as a result of a less favourable mix of managed products and a decrease in other operating income. Operating costs increased (+3.2%), due to the rise in personnel expenses, related to the qualitative strengthening of the workforce and the incentive system supporting growth, and amortisation and depreciation, mainly in the real estate area. With regard to the provisions, the increase 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 465 million euro (+4 million euro, or +0.9%).

The values of assets gathered have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.
As at 30 June 2019, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 192.4 billion euro (+12.7 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 118.8 billion euro (+6.9 billion euro).

In the initial months of 2019, the integration of the Swiss companies of the Fideuram Intesa Sanpaolo Private Banking group was carried out through several non-recurring transactions, which resulted in the creation (with accounting and tax effects from 1 January 2019) of Intesa Sanpaolo Private Bank (Suisse) Morval, the new Swiss company that will steer the foreign development of the Division.

Business	Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.
Mission	Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations.
Organisational structure	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of more than 5,000 Fideuram and Sanpaolo Invest financial advisors.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of around 900 in-house private bankers.
Intesa Sanpaolo Private Bank (Suisse) Morval	Bank dedicated to developing international private customers, which operates through a group of companies specialising in wealth management and private banking.
SIREF Fiduciaria	Company specialised in the provision of fiduciary services.
Distribution structure	Network of 226 branches in Italy, 4 branches abroad and 5,942 financial advisors and private bankers.

Asset Management

(millions of euro)

Income statement	30.06.2019	30.06.2018	Changes amount	%
Net interest income	-	-	-	-
Net fee and commission income	342	360	-18	-5.0
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	4	-6	10	-
Other operating income (expenses)	18	16	2	12.5
Operating income	**364**	**370**	**-6**	**-1.6**
Personnel expenses	-36	-37	-1	-2.7
Other administrative expenses	-33	-37	-4	-10.8
Adjustments to property, equipment and intangible assets	-3	-3	-	-
Operating costs	**-72**	**-77**	**-5**	**-6.5**
Operating margin	**292**	**293**	**-1**	**-0.3**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-	-	-	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**292**	**293**	**-1**	**-0.3**
Taxes on income	-66	-56	10	17.9
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-5	-5	-
Net income (loss)	**226**	**232**	**-6**	**-2.6**

(millions of euro)

	30.06.2019	01.01.2019	changes amount	%
Assets under management	252,042	242,609	9,433	3.9

	30.06.2019	31.12.2018	changes amount	%
Risk-weighted assets	986	963	23	2.4
Absorbed capital	107	103	4	3.9

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 came to 364 million euro in the first half of 2019, down 1.6% compared to the same period of the previous year, attributable to the decrease in fee and commission income, particularly for management fees, linked to the reduction in average assets under management, and for placement fees. Conversely, among other revenue components, of marginal amounts, a positive contribution was provided by the income deriving from the fair value measurement of the financial portfolio and other operating income. Operating costs reported a decrease (-6.5%), attributable to administrative expenses, thanks to the efficiency gains achieved on fund administration costs, and to personnel expenses. As a result of the above revenue and cost trends, the operating margin came to 292 million euro, substantially stable (-0.3%) on the same period of the previous year. The Division closed the first half of 2019 with net income of 226 million euro (-2.6%).

Overall, assets managed by the Asset Management Division amounted to 252 billion euro as at 30 June 2019, up 3.9% on the beginning of the year, as a result of a positive market performance that more than offset the net outflows. The net outflows were due to the outflows of mutual funds (-1.5 billion euro) and retail and private portfolio management schemes (-1.3 billion euro).

As at 30 June 2019, Eurizon Capital's Italian market share of assets under management was 14.1% (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 June rose to 14.6%. The reduction in the market share was largely due to the acquisition by BancoPosta Fondi SGR of two new mandates for a total of 53 billion euro from entities belonging to the Poste Italiane group (Poste Italiane S.p.A. - Patrimonio BancoPosta and Poste Vita S.p.A.). Excluding this transaction, the market share would have been 14.5% (14.9% excluding the closed-end funds segment).

With regard to key corporate events, in line with the objectives of corporate simplification set out in the 2018-2021 Business Plan, in January 2019 Intesa Sanpaolo acquired from Eurizon Capital SGR its investments held in the consortium company Intesa Sanpaolo Group Services S.c.p.A. and in the Chinese company Qingdao Yicai Wealth Management Co. Ltd. In June 2019, the partial spin-off of Banca IMI to Eurizon Capital SGR was also finalised, entailing the assignment to the latter of the entire investment held by the demerged company in Epsilon SGR, equal to 49% of the share capital.

Business	Asset management.
Mission	To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors.
Organisational structure	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon SGR	Specialised in active portfolio management on quantitative bases. It is a 100% subsidiary of Eurizon Capital SGR.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital SGR, established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital SGR, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
PBZ Invest d.o.o. (Croatia)	A Croatian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Croatian mutual funds and offers individual portfolio management services to retail and institutional customers.
CIB Investment Fund Management Ltd (Hungary)	A Hungarian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Hungarian mutual funds and offers individual portfolio management services to retail and institutional customers.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, which conducts research and provides investment and advisory services.
Penghua Fund Management Company Limited	Chinese fund manager 49%-owned by Eurizon Capital SGR.

Insurance

(millions of euro)

Income statement	30.06.2019	30.06.2018	Changes amount	Changes %
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	547	626	-79	-12.6
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-5	-6	-1	-16.7
Operating income	**542**	**620**	**-78**	**-12.6**
Personnel expenses	-43	-40	3	7.5
Other administrative expenses	-46	-41	5	12.2
Adjustments to property, equipment and intangible assets	-5	-4	1	25.0
Operating costs	**-94**	**-85**	**9**	**10.6**
Operating margin	**448**	**535**	**-87**	**-16.3**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-	-2	-2	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**448**	**533**	**-85**	**-15.9**
Taxes on income	-115	-136	-21	-15.4
Charges (net of tax) for integration and exit incentives	-1	-1	-	-
Effect of purchase price allocation (net of tax)	-8	-8	-	-
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)	**324**	**388**	**-64**	**-16.5**

(millions of euro)

	30.06.2019	01.01.2019	changes amount	changes %
Direct deposits from insurance business (1)	157,529	149,358	8,171	5.5
	30.06.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	-	-	-	-
Absorbed capital	4,318	3,874	444	11.5

(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 half of 2019, the Division reported income from insurance business of 547 million euro, down 79 million euro (-12.6%) compared to the same period of the previous year. The decrease in the result was mainly attributable to lower financial components than those realised in the first half of last year as a defensive strategy in relation to expectations of interest rate trends.
Gross income amounted to 448 million euro, down by 85 million euro (-15.9%), mainly due to the fall in operating income (-12.6%). The increase in operating costs (+10.6%) was mainly attributable to the initiatives linked to the development of the non-life business.
The cost/income ratio, at 17.3%, remained at excellent levels, with an increase on the figure reported for the first six months of 2018.

Lastly, net income, after the attribution of taxes of 115 million euro, charges for integration of 1 million euro and the effect of purchase price allocation for 8 million euro, amounted to 324 million euro (-16.5%).
Direct deposits from insurance business, amounting to 157,529 million euro, were up compared to the beginning of the year (+5.5%, or +8.2 billion euro), due to the financial liabilities measured at fair value and the technical reserves.

The Division's collected premiums for life policies and pension products amounted to 8 billion euro, down 23% 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 34% and 6% respectively.

Collected premiums for the protection business totalled 313 million euro, up by 26% on the first six 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 115%. Specifically, Home and Health products increased by 124%.

Business	Life and Non-Life Insurance.
Mission	Develop the offering of insurance products for the Group's customers.
Organisational structure	
Intesa Sanpaolo Vita	Insurance parent company specialised in offering insurance, pension and personal and asset protection services within Banca dei Territori. The company is the sole owner of Intesa Sanpaolo Life and Intesa Sanpaolo Assicura and has a 49% interest in Intesa Sanpaolo Smart Care, a 51%-owned subsidiary of Intesa Sanpaolo (Banca dei Territori Division) that markets hardware and software and provides remote assistance services.
Intesa Sanpaolo Life	Specialised in life insurance products with a higher financial content, such as unit-linked products and life insurance policies linked to internal funds.
Intesa Sanpaolo Assicura	Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection.
Fideuram Vita	Specialised in offering insurance, pension and personal and asset protection products in service of the Private Banking Division.

Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for the NPE Department, Treasury and Strategic ALM.

The Corporate Centre Departments generated a gross loss of 1,054 million euro in the first half of 2019, compared to -1,235 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 more than 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 half of 2018, due to the services received from Intrum Italy and higher labour costs connected with the strengthening of several Governance structures. The period ended with a net loss of 942 million euro, lower than the -1,183 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 ordinary contributions to the resolution funds, including the balance payment and the additional contribution, recorded in May and June of the current year, respectively, amounted to 242 million euro, after tax, up compared with the 219 million euro for the first half 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 first half of 2019, Intesa Sanpaolo confirmed its systemic role as a critical participant in the Target2 system, maintaining its stable market shares on the settlement platforms of the European Central Bank (Target2 and Target2 Securities).
Intesa Sanpaolo's contribution to the European Central Bank's working group continued for the construction of the new Target Services (Services for the integrated settlement of cash, securities and collateral), which will be activated between November 2021 and November 2022. Specifically, the main milestone achieved by the "T2-T2S Consolidation" project at European level was the preparation of the final version of the Functional Specifications.
To facilitate the migration of our Group to the new ECB Target Services in 2021, the internal ISP project for clearing of Fideuram and Banca 5 on the current Target2 settlement system were successfully concluded.

In the first half of 2019, the ECB maintained a highly accommodating monetary policy due to the continued economic slowdown and the increase in uncertainty linked to global risk factors. At the June meeting, President Draghi announced the extension of the forward guidance until mid-2020 and illustrated the incentive mechanisms for the seven new auctions (TLTRO-III) that will be conducted starting in September, also emphasising that the Governing Council would be willing to use all instruments available to boost inflation. Money-market curves were impacted by the macroeconomic scenario. Specifically, the 12-month part of the curve reached its absolute low at the end of the half year (-0.217%). With regard to the United States, the Federal Reserve left interest rates unchanged both in the March meeting and the June meeting. Chairman Powell implied that the official rates might be cut in response to global uncertainty, with specific reference to the trade dispute with China. Short-term securities funding outstanding in Euro and in foreign currency grew significantly during the first six months of the year, due to the increased appetite of investors to our Bank, benefiting from a period that recorded limited tensions on Italian country risk.

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 5.4 billion euro. Among the securities placed, there was a prevalence (83%) of the component consisting of structured financial instruments, mainly comprised of index-linked structures. A breakdown by average maturity shows that 36% is comprised of instruments with maturities up to 4 years, 62% is represented by 5-, 6- and 7-year securities, and the remaining 2% by 8- and 10-year securities.
On international markets, unsecured institutional funding transactions were completed for a total of approximately 559 million euro: a fixed-rate senior bond of 13.2 billion JPY was issued (equivalent to approximately 105 million euro) on the Japanese market (in 2 tranches, of which 8.2 billion JPY with a 3-year duration and 5 billion JPY with a 15-year duration); private placements of 239 million euro were completed by Intesa Sanpaolo, along with 215 million euro by Banca IMI.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 25th series was placed on the institutional market in March: a benchmark public issue for 1 billion euro. The bond, with a fixed rate coupon of 0.50% and a 5-year maturity, is listed on the Luxembourg Stock Exchange and has a Moody's Aa3 rating. The 26th series was issued in April for 500 million euro: it is a floating-rate bond with 9-year maturity, with a Moody's Aa3 rating, which was fully subscribed by the Parent Company for Eurosystem refinancing operations.
On 7 February, Intesa Sanpaolo announced a liability management transaction through a cash tender offer, involving a number of unsecured senior notes placed on the US market. The transaction was concluded on 14 February with a total subscription of 2.1 billion USD, or around 56% of the nominal value of the target notes.
As part of the initiatives aimed at strengthening the counterbalancing capacity, in February - under the multi-originator programme guaranteed by ISP OBG - securities in the 13th and 14th series were redeemed in advance for a total of 2.750 billion euro and two new series - the 32nd and 33rd - were issued at the same time, for an amount of 1.650 billion euro each, maturing in 5 and 13 years, respectively. In June, three new series of securities were issued: the 34th and 35th, for an amount of 1.6 billion euro each, and the 36th series for 1.8 billion euro, with a duration of 8, 10 and 14 years respectively. The securities, all floating rate, are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS, were subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January, the 13th series was partially redeemed for an amount of 600 million euro bringing the nominal amount to 1.050 billion euro.

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 June 2019, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was 13.9 billion euro.

Within the government bond portfolio (aimed at managing the liquidity buffer), the US Treasury positions accumulated during the second half of 2018 were liquidated in January, to take advantage of the fall in interest rates, with a view to containing the overall volatility of the portfolio. Subsequently, the compression of credit spreads made it possible to profitably turnover the portfolio on the government and corporate securities market, while portfolio diversification was extended to positions in Japanese government bonds, taking advantage of the favourable trend in the euro-yen base.
With regard to the repo market, in the first six months of 2019 volumes of Italian government bonds traded increased compared to the end of the previous year, while interest rates came to levels slightly higher than the depo facility.
During the half year, the spread between core country and Italian govies rates confirmed a tightening on the end of the previous year. At the end of the half year the volatility of repo rates was limited.

Strategic ALM

With regard to Strategic Asset & Liability Management 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 Risks 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.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
30.06.2019	7,331	1,366	369	9,066
30.06.2018	7,606	1,479	335	9,420
% change	-3.6	-7.6	10.1	-3.8
Loans to customers				
30.06.2019	329,201	49,678	15,374	394,253
01.01.2019	327,336	51,214	15,000	393,550
% change	0.6	-3.0	2.5	0.2
Direct deposits from banking business				
30.06.2019	349,788	63,328	10,042	423,158
01.01.2019	350,585	55,681	8,816	415,082
% change	-0.2	13.7	13.9	1.9

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

With regard to subdivision by geographical areas, the activities of the Intesa Sanpaolo Group continued to be concentrated primarily in the Italian market. Italy accounted for 81% of revenues and 83% of loans to customers and of direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation, Ukraine, Moldova and in the Mediterranean area (Egypt).
With regard to operating performance in the first half of 2019, loans to customers increased in Italy and in the rest of the world, against a decrease in Europe, whilst direct deposits from banking business grew in Europe and the rest of the world and showed substantially unchanged amounts in Italy. Finally, revenues increased in the rest of the world but decreased in Italy and Europe.

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 June 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 June, the Central Banks eligible liquidity reserves came to 191 billion euro (175 billion euro at the end of December 2018), of which 110 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 60% of the own portfolio and 94% of the unencumbered one.

The loan to deposit ratio at the end of June 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 (326 billion euro). In addition, 1 billion euro of covered bonds, 13.2 billion Yen of unsecured senior Tokyo Pro-Bonds and 2.25 billion euro of unsecured senior preferred bonds were placed during the half year.

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

The Intesa Sanpaolo Group's leverage ratio was 6.1% as at 30 June 2019.

The capital base also remains high. Own funds, risk-weighted assets and the capital ratios at 30 June 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 the first half, Own Funds – taking account of the transitional treatment adopted to mitigate the impact of IFRS 9 – came to 49,241 million euro, against risk-weighted assets of 280,260 million euro, which primarily reflected credit and counterparty risk and, to a lesser extent, market and operational risk.

The Total Capital Ratio stood at 17.6%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.6%.

Having met the regulatory requirements for its inclusion pursuant to article 26(2) of the CRR, the Common Equity Tier 1 Capital as at 30 June 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 VaR during the first six months of 2019 was approximately 170 million euro, compared to an average amount of approximately 55 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 1,991 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 65.9% and 37.2% 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 62% using level 1 inputs, around 31% using level 2 inputs and only around 7% using level 3 inputs.

Investment levels in structured credit products and hedge funds remained low. The structured credit products generated a positive contribution of 24 million euro during the period, whereas the hedge funds generated a profit of 5 million euro over the six months, as described in more detail in the specific paragraphs of this chapter.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly delicate. No problematic issues requiring the remeasurement of the recoverable values of intangible assets and goodwill were identified during the period. In any event, it should be noted that, with regard to the scenario forecasts included in the income projections used for the 2018 impairment test, the latest macroeconomic estimates envisage a reduction of Italian GDP growth from 0.6% to 0.2% for 2019. However, also taking into account this reduction throughout the plan scenario, this would result in a potential risk, understood as an adverse impact on the Group's net income, that would not generate critical impairment issues for any of the Cash Generating Units (CGUs) to which intangible assets with an indefinite useful life have been allocated. In addition, the analyses conducted did not identify deviations from the budget of financial flows produced by the business divisions and any 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 Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.
The Corporate Bodies also benefit from the action of some Management Committees on risk management. These Committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of corporate control functions, and in particular the risk control function.

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[2], 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.

[2] 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.

The situation as at 30 June 2019 is shown in the following table:

Portfolio	PD – model type	LGD – model type	EAD – model type	Status
Institutions	Default model (Banks)(4)	Market model (Banks)	Regulatory Parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities and Provinces and Regions)	Regulatory Parameters (Municipalities and Provinces and Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leasing and Factoring)	CCF/ K factor model (Corporate)	FIRB authorised since December 2009, AIRB LGD authorised since December 2010. EAD authorised since September 2017 (1)
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory Parameters (Specialised Lending)	AIRB authorised since June 2012
Retail	Default model (Retail)	Workout model (Retail)	CCF/ K factor model (Retail)	AIRB Retail authorised since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory Parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) Intesa Sanpaolo: FIRB authorised since December 2008, LGD AIRB since December 2010 and AIRB since 2017 (EAD model authorisation). Mediocredito Italiano AIRB authorised since December 2010. Banca Imi (2012), ISP Ireland (2010), VUB (2010), Banka Intesa dd (2017), ISP Luxembourg (2017). Since 2017, the Corporate model has also been used to calculate the risk on the banking book equity portfolio with LGD 65%/90%
2) The authorisation for the IRB Retail model received in 2018 represented a model change for the Retail Mortgage component, already authorised in 2010, and a new validation for the Other Retail component. VUB has been authorised since June 2012 for the PD and LGD Retail Mortgage models.
3) VUB has been authorised since June 2014
4) Intesa Sanpaolo, Mediocredito Italiano and Banca Imi have been authorised since 2017

With regard to counterparty risk on OTC derivatives and SFTs, the Group has improved the measurement and monitoring, by refining the instruments required under Basel 3. For reporting purposes, Intesa Sanpaolo, Banca IMI and the companies of the Banca dei Territori Division (only Mediocredito Italiano remaining as at 30 June) are authorised to use internal models (both for the determination of Exposure at default for replacement risk and for the CVA capital charge for migration risk).

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

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 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's strategies, powers and rules for credit granting and management are aimed at:

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

The Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Italian Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.
Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.

There were no changes relating to the authorisations for the models to be applied to the specific portfolios with respect to 31 December 2018, except for the abovementioned extension of the Group's Institutions, Corporate and Retail internal models to the portfolio acquired from the former Banca Apulia, subsequently merged into Intesa Sanpaolo.

Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. The quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of detecting any symptoms of difficulty and promote corrective measures to prevent possible deterioration of credit risk.
Positions are detected and automatically entered in the credit management processes by way of daily and monthly checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring.
Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the regulatory provisions on credit quality:

- Bad loans: the set of "on-" and "off-balance sheet" exposures towards borrowers in default or similar situations;
- Unlikely to pay: "on-" and "off-balance sheet" exposures which the bank, based on its opinion, does not deem likely to be completely (as principal and/or interest) repaid by the borrowers without the implementation of actions such as enforcement of guarantees. This assessment is irrespective of the presence of any amounts (or instalments) due and unpaid.

The category of non-performing loans also includes past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.
Lastly, non-performing exposures also include the individual forborne exposures which comply with the definition of "Non-performing exposures with forbearance measures" envisaged by the EBA ITS (European Banking Authority - Implementing Technical Standards), which are not a separate category of non-performing assets, but rather a sub-category. Similarly, exposures characterised by "forbearance measures" are also included among performing loans.

The management process for such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by automatic mechanisms that ensure pre-established, autonomous and independent management procedures.

(millions of euro)

Captions	30.06.2019			01.01.2019			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	20,685	-13,631	7,054	21,734	-14,596	7,138	-84
Unlikely to pay	13,610	-5,058	8,552	14,268	-5,167	9,101	-549
Past due loans	501	-126	375	473	-121	352	23
Non-Performing Loans	**34,796**	**-18,815**	**15,981**	**36,475**	**-19,884**	**16,591**	**-610**
Non-performing loans in Stage 3 (subject to impairment)	*34,724*	*-18,800*	*15,924*	*36,396*	*-19,865*	*16,531*	*-607*
Non-performing loans designated at fair value through profit or loss	*72*	*-15*	*57*	*79*	*-19*	*60*	*-3*
Performing loans	**374,473**	**-1,991**	**372,482**	**373,877**	**-2,105**	**371,772**	**710**
Stage 2	*40,936*	*-1,268*	*39,668*	*43,880*	*-1,316*	*42,564*	*-2,896*
Stage 1	*332,962*	*-723*	*332,239*	*329,555*	*-789*	*328,766*	*3,473*
Performing loans designated at fair value through profit or loss	*575*	*-*	*575*	*442*	*-*	*442*	*133*
Performing loans represented by securities	**5,794**	**-33**	**5,761**	**5,131**	**-19**	**5,112**	**649**
Stage 2	*1,967*	*-26*	*1,941*	*986*	*-16*	*970*	*971*
Stage 1	*3,827*	*-7*	*3,820*	*4,145*	*-3*	*4,142*	*-322*
Loans held for trading	***29***	**-**	***29***	***75***	**-**	***75***	**-46**
Total loans to customers	**415,092**	**-20,839**	**394,253**	**415,558**	**-22,008**	**393,550**	**703**
of which forborne performing	**7,598**	**-334**	**7,264**	**8,322**	**-385**	**7,937**	**-673**
of which forborne non-performing	**8,680**	**-3,584**	**5,096**	**9,192**	**-3,755**	**5,437**	**-341**
Loans to customers classified as discontinued operations (*)	**604**	**-161**	**443**	**1,244**	**-310**	**934**	**-491**

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

(*) As at 30 June 2019, this caption included the portfolio of bad loans, unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 254 million euro, total adjustments of 112 million euro, net exposure of 142 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 350 million euro, total adjustments of 49 million euro, net exposure of 301 million euro).

As at 30 June 2019, the Group's net non-performing loans amounted to 16 billion euro, down by 3.7% compared with the beginning of the year, continuing the progressive decline that marked the previous year. Non-performing assets decreased slightly as a percentage of total net loans to customers, down to 4.1%, while the coverage ratio for non-performing loans remained high at 54.1%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, bad loans came to 7.1 billion euro, net of adjustments, at the end of June 2019, confirming the figure of the beginning of the year, and continued to represent 1.8% of total loans. During the same period, the coverage ratio stood at 65.9%. Loans included in the unlikely-to-pay category amounted to 8.6 billion euro, down by 6%, accounting for 2.2% of total loans to customers, with a coverage ratio of 37.2%. Past due loans amounted to 375 million euro, up 6.5% since 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 5.1 billion euro, with a coverage ratio of 41.3%, while forborne exposures in the performing loans category amounted to 7.3 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.

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.

The Group uses techniques to mitigate counterparty risk through bilateral netting arrangements which enable the netting off of credit and debit positions in the event of counterparty default.
This is achieved by entering into ISDA agreements, for OTC derivatives, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Bank establishes collateral arrangements, where possible, typically calling for daily margins, to hedge bilateral OTC derivatives (CSAs) and SFTs (GMRAs and GMSLAs).

For reporting purposes, Intesa Sanpaolo, Banca IMI and the banks of the Banca dei Territori Division (only Mediocredito Italiano remaining as at 30 June) are authorised to use the internal models approach to calculate the counterparty risk requirement for OTC derivatives and SFTs.
These advanced risk measurement methods are also used at operational level to perform the "use test": the Financial and Market Risks Head Office Department calculates, validates and sends the metrics to the credit monitoring systems on a daily basis to measure the use of the credit lines for OTC derivatives and SFTs.
The Group's banks which are not included in the roll-out plan for the internal models nevertheless apply the advanced metrics in a simplified manner at operational level.

To perform the use test of the model, the Group has implemented the processes required by the "Basel 3" regulations.
In particular, stress tests are carried out to measure the impacts on risk measures under extreme market conditions. Backtesting is also conducted to ensure the robustness of the model.
In addition, to complete the risk analysis process, the following corporate processes have been activated:

- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for margined OTC derivatives and SFTs;
- periodic reporting to management of the measures calculated using the current and future internal exposure model, analysis of portfolio composition by type of counterparty/division/segment/country, underlying type per SFT capital requirement, level of use of management limits, and results of stress tests and Wrong-Way Risk analyses.

MARKET RISKS

TRADING BOOK

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:
- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.

Managerial VaR

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

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

Level measures

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Stress tests

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables.
Stress tests for management purposes are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst-case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Internal model validation

For some of the risk factors included in the managerial VaR measurements, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of both Intesa Sanpaolo and Banca IMI.
More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI and the hedge fund portfolios of the Parent Company (look through approach), (iii) position risk on dividend derivatives and (iv) commodity risk for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.
Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Supervisory Authority following completion of the previously recommended corrective actions.

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

While using the historical simulation approach for VaR calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
For the reporting as at 30 June 2019, the period relevant to the measurement of Stressed VaR was from 1 October 2011 to 30 September 2012 for both Intesa Sanpaolo and Banca IMI.

Incremental Risk Charge (IRC)
The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

Details are provided below of the estimates and evolution of managerial VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI [(a)]
During the second quarter of 2019, the market risks originated by Intesa Sanpaolo and Banca IMI decreased compared to the previous period: the average daily managerial VaR was 164 million euro, compared to 177 million euro in the first quarter. In detail, the reduction was due to Banca IMI (average VaR in the first quarter of 160.1 million euro compared to 149 million euro in the second quarter).

(millions of euro)

	2019				2018			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	15.0	13.4	17.0	16.9	13.9	14.4	11.8	7.8
Banca IMI	149.0	111.6	188.0	160.1	81.3	75.9	50.1	40.3
Total	**164.0**	**127.7**	**203.1**	**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.

The risk measures for the first half of 2019 (amounting to 170.4 million euro) were up at Group level compared to the first half of 2018 (55 million euro). 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 1st half	minimum 1st half	maximum 1st half	average 1st half	minimum 1st half	maximum 1st half
Intesa Sanpaolo	16.0	13.4	19.0	9.8	6.7	20.9
Banca IMI	154.4	102.5	192.3	45.2	24.6	85.8
Total	**170.4**	**116.6**	**208.8**	**55.0**	**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 six months of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

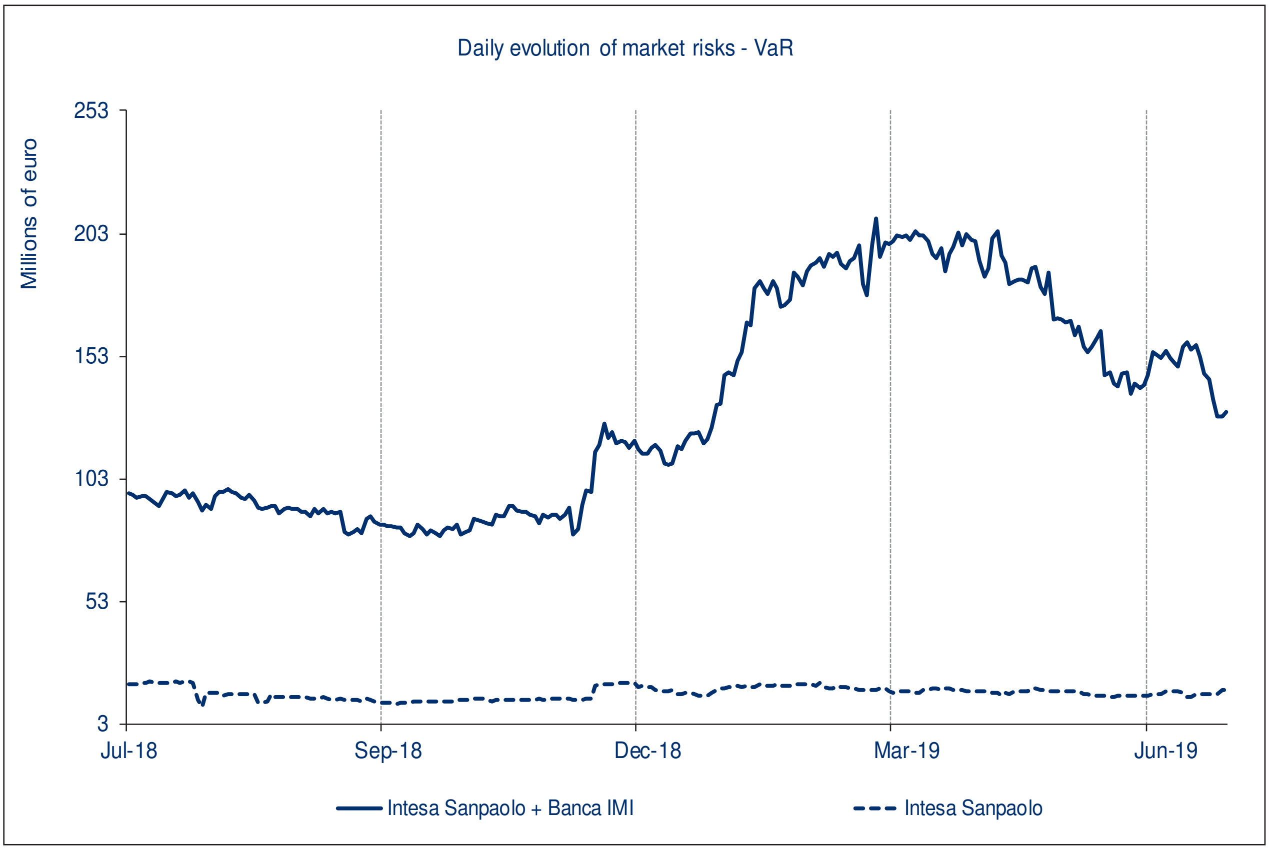
The breakdown of risk profile in the second quarter of 2019 with regard to the various factors shows the prevalence of the risk generated by the spread, which accounted for 59% of the total managerial VaR for Intesa Sanpaolo and 81% for Banca IMI.

Contribution of risk factors to total managerial VaR (a)

2nd quarter 2019	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	2%	3%	24%	59%	11%	1%	0%
Banca IMI	2%	0%	14%	81%	0%	2%	1%
Total	**2%**	**0%**	**14%**	**80%**	**1%**	**2%**	**1%**

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

The performance of the VaR is mainly attributable to the operations of Banca IMI. During the first quarter of 2019, the risk measures increased, mainly as a result of dealings in government bonds. The increase in risks is consistent with the 2019 RAF. The second quarter was characterised by the exit of volatile scenarios from the calculation of the historical simulation; this element generates, for a portfolio of securities that was almost stable in the second quarter, a reduction in risks.



Risk control with regard to the activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. 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 June is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	0	2	-245	140	579	-560	37	26	0	3

Among these:
- for stock market positions, there would be no losses in both crash and bullish stock market scenarios, given the portfolio non-linearity;
- for positions in interest rates, there would be a loss of 245 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 560 million euro (primarily relating to government bond positions);
- for foreign exchange positions, there would be a profit in both euro's appreciation and depreciation scenarios, given the portfolio non-linearity;
- finally, for positions on commodities, there would be no losses in both scenarios given the portfolio non-linearity.

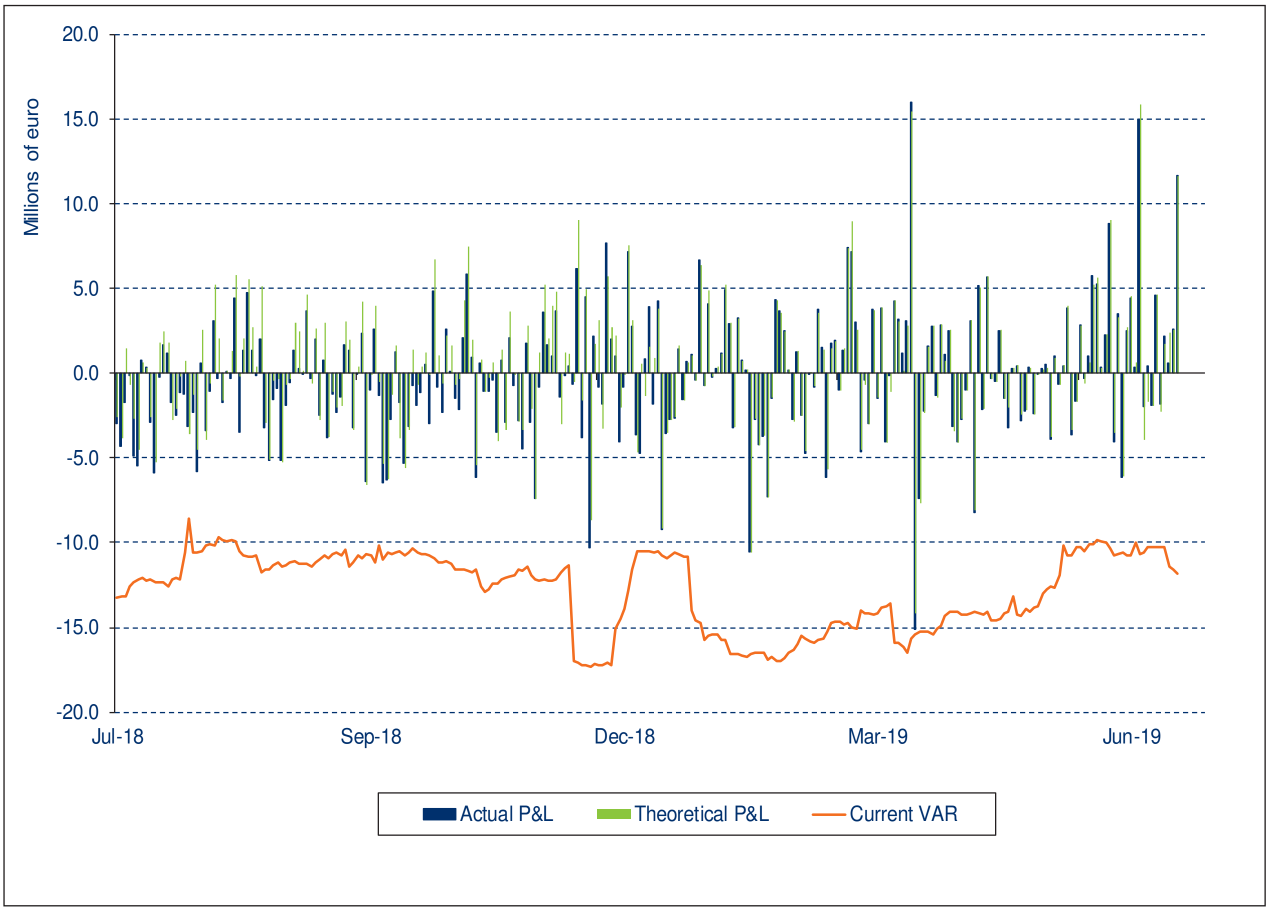
Backtesting

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 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 (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than 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.

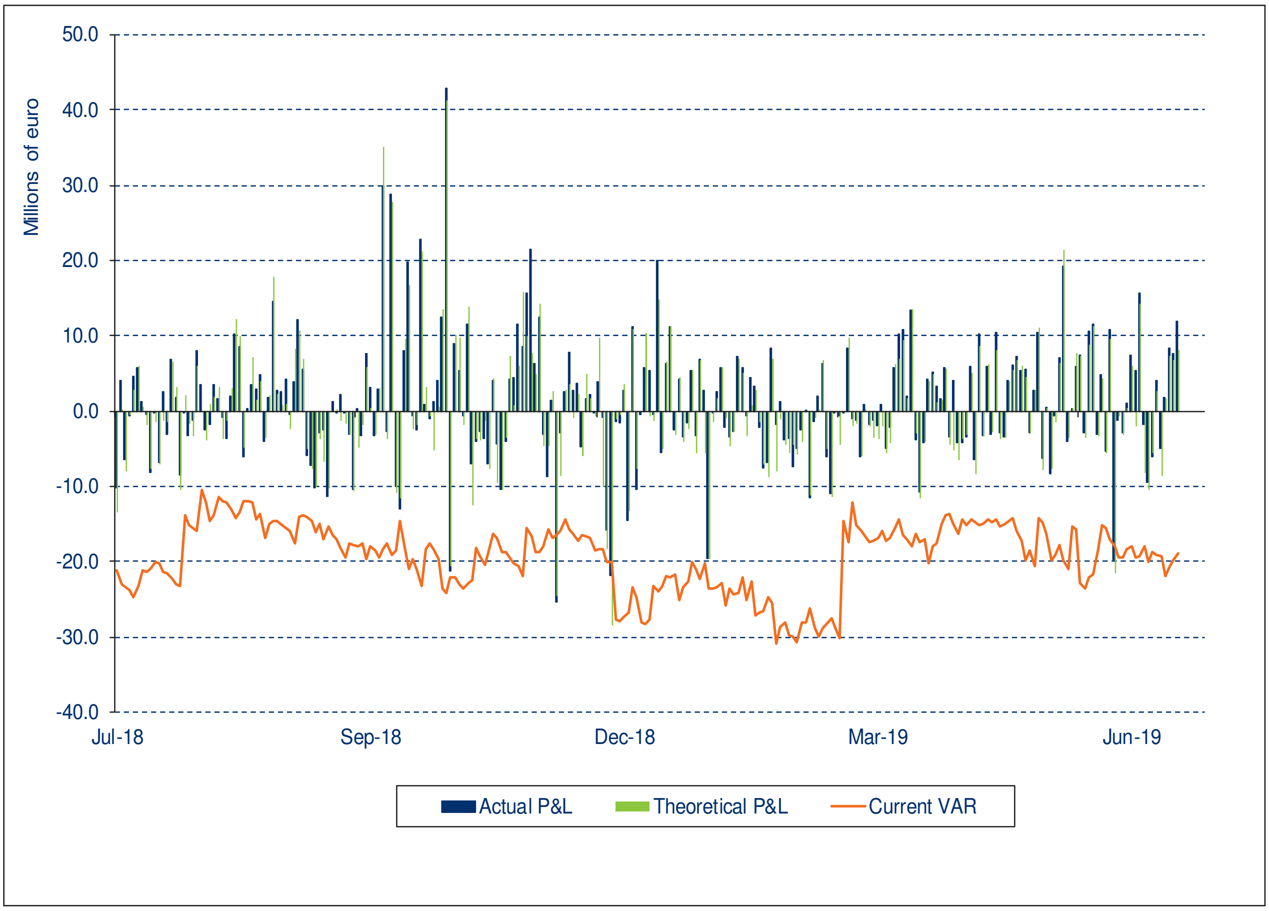
Backtesting in Intesa Sanpaolo

Over the last twelve months there have been no backtesting exceptions.



Backtesting in Banca IMI

Over the last twelve months there have been three backtesting exceptions. The breaches were due to the credit component of the portfolio, which was particularly affected by the volatility in the second half of 2018, and, in the more recent period, to the trend in interest rates.



BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and IMI Investimenti.
The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:
- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

The following metrics are used to measure the interest rate risk generated by the banking book:
1. shift sensitivity of economic value (ΔEVE);
2. net interest income:
   - shift sensitivity of net interest income (ΔNII);
   - dynamic simulation of net interest income (NII);
3. Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:
- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.
- the cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP;

To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.
In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.

The shift sensitivity of the net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.
This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.
To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +/-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in

turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods.
A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.
Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department of the Parent Company is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with the IAS/IFRS.
During 2019, no hedging activities have been performed to cover the price risk of the banking book.

The table below shows the changes in the main risk measures during the first half of 2019.

(millions of euro)

	1st half 2019			30.06.2019	31.12.2018
	average	**minimum**	**maximum**		
Shift Sensitivity of the Economic Value +100 bp	811	627	1,226	627	1,143
Shift Sensitivity of Net Interest Income -50bp	-993	-952	-1,031	-1,000	-928
Shift Sensitivity of Net Interest Income +50bp	958	914	985	958	886
Shift Sensitivity of Net Interest Income +100bp	1,872	1,786	1,926	1,866	1,759
Value at Risk - Interest Rate	103	74	126	126	91
Value at Risk - Equity investments in listed companies	65	57	75	65	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	Impact on shareholders' equity at 31.12.2018
Price shock	10%	59	56	39
Price shock	-10%	-59	-56	-39

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo.

These guidelines contain the latest regulatory provisions on liquidity risk and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of such risk, thereby preventing the emergence of crisis situations.

In particular, from an organisational standpoint, a detailed definition is prepared of the tasks assigned to the Board of Directors and reports are presented to senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Group Treasury and Finance Head Office Department, responsible for liquidity management, and the Financial and Market Risks Head Office Department, directly responsible for measuring liquidity risk on a consolidated basis.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR) respectively, in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR, the minimum regulatory threshold for which is 100% after 1 January 2018, is aimed at strengthening the short-term liquidity risk profile, ensuring the holding of sufficient unencumbered high-quality liquid assets (HQLA) that can be easily and immediately converted into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario, as defined by Delegated Regulation (EU) 2015/61.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures: this requirement will take on the minimum regulatory value of 100% by June 2021 following the recent publication in the Official Journal of the new CRD IV and CRR 2. In addition, the internal policy on structural liquidity also includes early warning indicators for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. For this purpose, the internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Group Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies.

In the first six months of the year, the Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy: both indicators, LCR and NSFR, were fully met and were already above the regulatory requirements. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, amounted to an average of 162%. As at 30 June 2019, the eligible liquidity reserves for the Central Banks, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 191 billion euro (175 billion euro at the end of December 2018), of which 110 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018).

The HQLA component represented 60% of own reserves and 94% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.
The stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the various risk factors.

INFORMATION ON FINANCIAL PRODUCTS

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

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES, PRUDENT VALUATION AND INDEPENDENT PRICE VERIFICATION

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

Fair value of financial instruments

The methodologies for the fair value measurement of financial instruments, as well as any adjustments attributable to uncertainties in valuation, are governed by the Fair Value Policy of the Intesa Sanpaolo Group and are described in detail in the 2018 Annual Report, to which reference is made for more information.

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

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.
The attachment "Fair Value Hierarchy" of the Fair Value Policy defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.
For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
The following are considered as level 1 financial instruments: contributed bonds (i.e. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, derivatives for which quotations are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed 40%.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.
When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;

- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed 40%.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:
- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:
- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds in which Level 3 assets predominate, as a percentage of the NAV, or in which Level 3 assets represent at least 40% of the NAV;
- funds, shareholding and other equity instruments measured using models based on discounted cash flows;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

Independent price verification (IPV)
Independent Price Verification (IPV) is “a process by which market prices or marking to model inputs are regularly verified for accuracy and independence” (Article 4(1.70) EU Regulation 575/2013), carried out “in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book” (Article 105(8) EU Regulation 575/2013).
The Intesa Sanpaolo Group has structured an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013, incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.
The Intesa Sanpaolo Group governs and formalises its independent price verification process through the Group Independent Price Verification Policy, which is described in detail in the 2018 Annual Report and to which reference is made for further information.

Prudent value of financial instruments
The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS. The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%.
The Intesa Sanpaolo Group governs and formalises the measurement of the prudent value of financial instruments through the Group Prudent Value Policy, which is described in detail in the 2018 Annual Report and to which reference is made for further information.

Fair value hierarchy

Assets and liabilities designated at fair value on a recurring basis: fair value by level
Excluding insurance companies

(millions of euro)

Assets / liabilities at fair value	30.06.2019			01.01.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	20,949	29,683	2,727	11,037	28,462	2,616
a) Financial assets held for trading	*20,612*	*28,728*	*433*	*10,748*	*27,655*	*403*
of which: Equities	*680*	*-*	*-*	*500*	*-*	*-*
of which: quotas of UCI	*634*	*2*	*43*	*913*	*2*	*47*
b) Financial assets designated at fair value	*-*	*195*	*-*	*-*	*208*	*-*
c) Other financial assets mandatorily designated at fair value	*337*	*760*	*2,294*	*289*	*599*	*2,213*
of which: Equities	*2*	*95*	*178*	*2*	*96*	*178*
of which: quotas of UCI	*335*	*116*	*1,319*	*267*	*-*	*1,334*
2. Financial assets designated at fair value through other comprehensive income	59,024	6,907	414	53,527	6,399	543
of which: Equities	*621*	*2,116*	*378*	*593*	*2,119*	*447*
3. Hedging derivatives	-	3,371	13	-	2,983	10
4. Property and equipment	-	-	5,667	-	-	5,720
5. Intangible assets	-	-	-	-	-	-
Total	**79,973**	**39,961**	**8,821**	**64,564**	**37,844**	**8,889**
1. Financial liabilities held for trading	24,240	26,824	123	14,928	26,824	143
2. Financial liabilities designated at fair value	-	4	-	-	4	-
3. Hedging derivatives	-	10,728	3	-	7,216	5
Total	**24,240**	**37,556**	**126**	**14,928**	**34,044**	**148**

Excluding insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 6.9%.
As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.
Over 62% of financial assets designated at fair value (excluding the insurance segment) are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities designated at level 3 as detailed below, please note that the following transfers were made during the first half of 2019:

- from level 1 to level 2:
  - financial assets held for trading for 28 million euro (book value as at 30 June 2019);
  - financial assets designated at fair value through other comprehensive income for 22 million euro (book value as at 30 June 2019);
  - financial liabilities held for trading for 31 million euro (book value as at 30 June 2019);
- from level 2 to level 1:
  - financial assets held for trading for 595 million euro (book value as at 30 June 2019);
  - financial assets designated at fair value through other comprehensive income for 149 million euro (book value as at 30 June 2019);
  - financial liabilities held for trading for 936 million euro (book value as at 30 June 2019).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

Assets and liabilities designated at fair value on a recurring basis: fair value by level *- Insurance companies*

(millions of euro)

Assets / liabilities at fair value	**30.06.2019**			**31.12.2018**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	210	15	47	231	11	47
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*57*	-	*47*	*61*	-	*47*
2. Financial assets designated at fair value through profit or loss	79,012	83	281	73,920	121	273
of which: Equities	*2,069*	-	-	*1,678*	-	-
of which: quotas of UCI	*72,300*	-	*18*	*67,729*	-	*19*
3. Financial assets available for sale	75,111	2,707	1,606	71,254	2,286	1,382
of which: Equities	*1,072*	-	-	*979*	-	-
of which: quotas of UCI	*9,881*	-	*1,606*	*10,256*	*1*	*1,382*
4. Hedging derivatives	-	99	-	-	21	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total Caption 35	**154,333**	**2,904**	**1,934**	**145,405**	**2,439**	**1,702**
1. Financial liabilities held for trading	2	50	-	3	41	-
2. Financial liabilities designated at fair value through profit or loss	-	71,975	-	-	67,755	-
3. Hedging derivatives	-	-	-	-	1	-
Total Caption 15	**2**	**72,025**	**-**	**3**	**67,797**	**-**

Having regard to insurance companies, as shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 1%.
As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.
Around 97% of financial assets designated at fair value in the insurance segment are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities in the insurance segment designated at level 3 as detailed below, please note that the following transfers were made during the first half of 2019:

- from level 1 to level 2:
  - financial assets designated at fair value through profit and loss for 1 million euro (book value as at 30 June 2019);
  - financial assets available for sale for 96 million euro (book value as at 30 June 2019);
- from level 2 to level 1:
  - financial assets designated at fair value through profit and loss for 1 million euro (book value as at 30 June 2019);
  - financial assets available for sale for 558 million euro (book value as at 30 June 2019);

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

Half-yearly changes in assets designated at fair value on a recurring basis (level 3)
Excluding insurance companies

(millions of euro)

	Assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily designated at fair value*				
1. Initial amount	**2,616**	**403**	**-**	**2,213**	**543**	**10**	**5,700**	**-**
2. Increases	**572**	**210**	**-**	**362**	**29**	**3**	**80**	**-**
2.1 Purchases	345	191	-	154	5	-	10	-
2.2 Gains recognised in:	96	15	-	81	13	3	3	-
2.2.1 Income statement	96	15	-	81	6	3	-	-
- of which capital gains	*65*	*15*	*-*	*50*	*6*	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	7	-	3	-
2.3 Transfers from other levels	13	2	-	11	1	-	-	-
2.4 Other increases	118	2	-	116	10	-	67	-
3. Decreases	**-461**	**-180**	**-**	**-281**	**-158**	**-**	**-113**	**-**
3.1 Sales	-136	-96	-	-40	-28	-	-14	-
3.2 Reimbursements	-53	-3	-	-50	-3	-	-	-
3.3 Losses recognized in:	-95	-40	-	-55	-5	-	-51	-
3.3.1 Income statement	-95	-40	-	-55	-	-	-51	-
- of which capital losses	*-83*	*-40*	*-*	*-43*	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-5	-	-	-
3.4 Transfers to other levels	-138	-38	-	-100	-100	-	-	-
3.5 Other decreases	-39	-3	-	-36	-22	-	-48	-
4. Final amount	**2,727**	**433**	**-**	**2,294**	**414**	**13**	**5,667**	**-**

Half-yearly changes in assets designated at fair value on a recurring basis (level 3) - Insurance companies

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**47**	**273**	**1,382**	**-**	**-**	**-**
2. Increases	**-**	**14**	**362**	**-**	**-**	**-**
2.1 Purchases	-	-	264	-	-	-
2.2 Gains recognised in:	-	1	48	-	-	-
2.2.1 Income statement	-	1	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	48	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	13	50	-	-	-
3. Decreases	**-**	**-6**	**-138**	**-**	**-**	**-**
3.1 Sales	-	-	-79	-	-	-
3.2 Reimbursements	-	-3	-	-	-	-
3.3 Losses recognized in:	-	-1	-14	-	-	-
3.3.1 Income statement	-	-1	-3	-	-	-
- of which capital losses	-	*-4*	-	-	-	-
3.3.2 Shareholders' equity	X	X	-11	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-2	-45	-	-	-
4. Final amount	**47**	**281**	**1,606**	**-**	**-**	**-**

Half-yearly changes in liabilities designated at fair value on a recurring basis (level 3)
(Excluding insurance companies)

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**143**	**-**	**5**
2. Increases	**4**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	3	-	-
2.2.1 Income statement	3	-	-
- of which capital losses	*3*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	1	-	-
2.4 Other increases	-	-	-
3. Decreases	**-24**	**-**	**-2**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-20	-	-2
3.3.1 Income statement	-20	-	-2
- of which capital gains	*-20*	-	*-2*
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-2	-	-
3.5 Other decreases	-2	-	-
4. Final amount	**123**	**-**	**3**

Half-yearly changes in liabilities designated at fair value on a recurring basis (level 3)
(Insurance companies)

There are no level 3 financial liabilities for Insurance companies

Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis
Excluding insurance companies

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
1. Financial assets measured at amortised cost	491,435	498,614	476,503	479,394
2. Investment property	-	-	-	-
3. Non-current assets held for sale and discontinued operations	803	803	1,297	1,297
Total	**492,238**	**499,417**	**477,800**	**480,691**
1. Financial liabilities measured at amortised cost	533,203	533,911	513,775	512,911
2. Liabilities associated with non-current assets	254	254	258	258
Total	**533,457**	**534,165**	**514,033**	**513,169**

Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis -
Insurance companies

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
1. Investments held to maturity	-	-	-	-
2. Due from banks	537	537	922	923
3. Loans to customers	31	31	30	31
4. Investment property	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-
Total Caption 45	**568**	**568**	**952**	**954**
1. Due to banks	3	3	4	4
2. Due to customers	88	87	68	67
3. Securities issued	765	765	738	738
4. Liabilities associated with non-current assets	-	-	-	-
Total Caption 15	**856**	**855**	**810**	**809**

Sensitivity analysis for financial assets and liabilities measured at level 3

As required by IFRS 13, for the financial assets and liabilities measured at level 3 the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
Securities at FVTPL and Securities at FVTOCI	Credit spread	-262	1 bp
Securities at FVTPL and Securities at FVTOCI	Correlation	-45	1%
Securities at FVTPL and Securities at FVTOCI	CPR	-10	1%
Securities at FVTPL and Securities at FVTOCI	Recovery rate	-379	-1%
OTC Derivatives - Interest Rates	Correlation for spread options between swap rates	-83	0.10
OTC Derivatives - Equity	Correlation between underlying equity baskets	-77	0.10
OTC Derivatives - Equity	Historical volatility	-448	10%
OTC Derivatives - Equity CPPI	Historical correlation	-188	0.10

Information on “Day one profit/loss”

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.
The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.
Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).
This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.
When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of “on-the-book” transactions falling under the Bank's investing activities, the Day-One-Profits earned on level 3 transactions (including in the above “on-the-book” management) are taken to the income statement when the Group entity (the investment bank) carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.

The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.
The following table shows the changes in the DOP amount deferred in the balance sheet, indicating the portion taken to the income statement.

(millions of euro)

1. Initial amount	**1**
2. Increases	**-**
2.1 New transactions	-
3. Decreases	**-**
3.1 Releases to the income statement	-
4. Final amount	**1**

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, which amounted to 2,018 million euro as at 31 December 2018, came to 2,974 million euro as at 30 June 2019, showing a net increase of 956 million euro. The exposure includes investments in ABSs (asset-backed securities) of 1,819 million euro, in CLOs (collateralised loan obligations) of 1,073 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 82 million euro, subject to constant, gradual disposals, without any plans for additional transactions.

(millions of euro)

Accounting categories	**Exposure as at 30.06.2019**				**31.12.2018**	**changes**	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	319	915	-	1,234	1,031	203	19.7
Financial assets mandatorily measured at fair value	-	28	-	28	63	-35	-55.6
Financial assets measured at fair value through other comprehensive income	389	740	-	1,129	724	405	55.9
Financial assets mesured at amortised cost	365	136	82	583	200	383	
Total	**1,073**	**1,819**	**82**	**2,974**	**2,018**	**956**	**47.4**

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 2,391 million euro in June 2019, a net increase of 573 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 583 million euro in June 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 +24 million euro was posted for the first half of 2019, against the +7 million euro for the first six months of 2018.
Specifically, as at 30 June 2019, the profits (losses) on trading - caption 80 of the income statement - for the exposures in funded and unfunded CLOs/ABSs amounted to +8 million euro, compared with a nil result in the first half of 2018.
The profits (losses) from financial assets mandatorily measured at fair value amounted to +14 million euro (+4 million euro in the first half of 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 +1 million euro in the first half of 2019 through a shareholders' equity reserve (from a nil reserve at the end of December 2018 to a reserve of +1 million euro in June 2019); there was also an impact of +1 million euro from sales made in the first half of 2019, a similar result to that seen in the first half of 2018.
Valuation impacts of 1 million euro were recognised on the securities classified as assets measured at amortised cost in the first half of 2019 (the impact in the first half of 2018 was +2 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	**30.06.2019**				**30.06.2018**	**changes**	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	2	6	-	8	-	8	-
Financial assets mandatorily measured at fair value	-	14	-	14	4	10	
Financial assets measured at fair value through other comprehensive income	-	1	-	1	1	-	-
Financial assets mesured at amortised cost	1	-	-	1	2	-1	-50.0
Total	**3**	**21**	**-**	**24**	**7**	**17**	

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.
In the first half of the year, under the programme guaranteed by ISP OBG, the securities of the 13th and 14th series were redeemed in advance in February for a total of 2.750 billion euro and two new series, the 32nd and 33rd, were concurrently issued for an amount of 1.650 billion euro each, with a duration of 5 and 13 years, respectively.
In June, three additional new series of securities were issued: the 34th and 35th, for an amount of 1.6 billion euro each, and the 36th series for 1.8 billion euro, with a duration of 8, 10 and 14 years respectively.
The securities, all floating rate, are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS, were subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 13th series was partially redeemed (for an amount of 600 million euro), bringing the nominal amount to 1.050 million euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 25th series was placed on the institutional market in March. The public issue of 1 billion euro, with a fixed rate coupon of 0.50% and a 5-year maturity, is listed on the Luxembourg Stock Exchange and has a Moody's rating of Aa3.
The 26th series was issued in April for 500 million euro: it is a floating-rate bond with 9-year maturity, with a Moody's Aa3 rating, which was fully subscribed by the Parent Company for Eurosystem refinancing operations.

INFORMATION ON LEVERAGED FINANCE 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 the 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 June 2019, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 22.6 billion euro, relating to approximately 2,200 credit lines (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 June 2019 amounted to 122 million euro in the trading book and approximately 150 million euro in the banking book, compared to 146 million euro and 88 million euro recognised 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 the first half of 2019, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure. In further detail, total redemptions in the first six months of the year amounted to approximately 24 million euro.
In the banking book, the increase in the exposure was due to new investments totalling approximately 55 million euro and to the increase in certain already existing positions for a total of approximately 27 million euro, set against sale transactions of approximately 20 million euro.
The income statement effect for the profits (losses) on trading - caption 80 of the income statement - at the end of June 2019 was positive for approximately 2 million euro.
The income statement effect recognised in the net profit (loss) on financial assets mandatorily measured at fair value - caption 110 of the income statement - at the end of June 2019 was a profit of almost 3 million euro.
Both positive results were mainly due to a general improvement in the valuations of the funds in the portfolio.
As a whole, the current strategy of the portfolio remains prudent, while waiting for any market opportunities to arise.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 June 2019, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 8,330 million euro (6,602 million euro as at 31 December 2018). The notional value of these derivatives totalled 60,542 million euro (57,047 million euro as at 31 December 2018). In particular, the notional value of plain vanilla contracts was 55,497 million euro (53,501 million euro as at 31 December 2018), while that of structured contracts was 5,045 million euro (3,546 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 came to 5,527 million euro (4,452 million euro as at 31 December 2018), of which 251 million euro (311 million euro as at 31 December 2018) referred to structured contracts.
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,400 million euro as at 30 June 2019 (1,412 million euro as at 31 December 2018). The notional value of these derivatives totalled 21,537 million euro (24,649 million euro as at 31 December 2018). In particular, the notional value of plain vanilla contracts was 16,986 million euro (21,822 million euro as at 31 December 2018), while that of structured contracts was 4,551 million euro (2,827 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 June 2019, this led to a negative effect of 37 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 Notes to the 2018 Financial Statements and the specific paragraphs of the section on accounting policies. 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

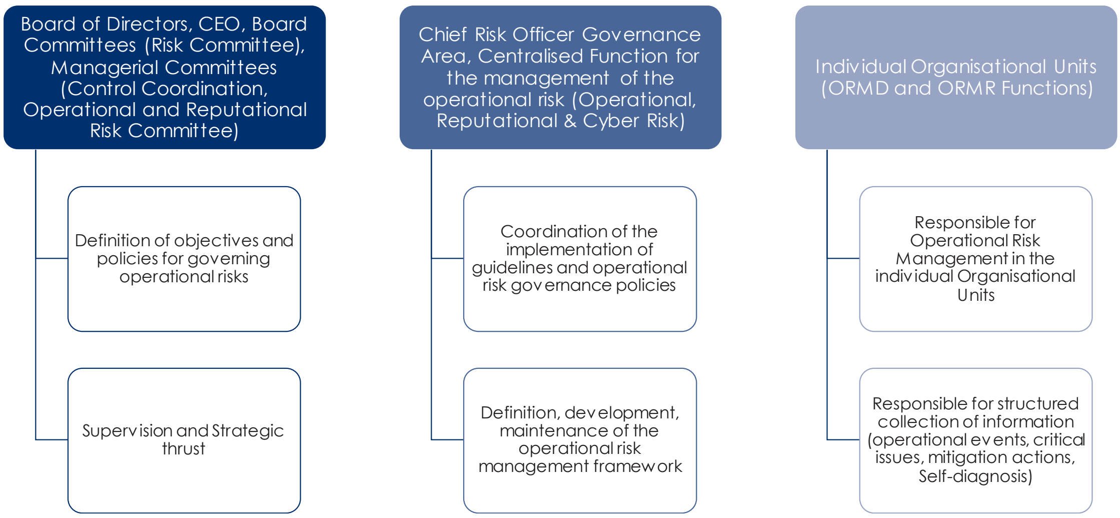
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.

In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

Governance Model

The monitoring of the Intesa Sanpaolo Group's Operational Risk Management involves Bodies, Committees and structures that interact with different responsibilities and roles in order to create an effective operational risk management system that is closely integrated into the decision-making processes and the management of company operations.



Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:

Identification

The identification phase involves:

- the structured collection and timely updating of the data on operational events, decentralised to the Organisational Units;
- the detection of critical issues;
- the performance of the annual self-diagnosis process, the annual process through which the Organisational Units identify their level of exposure to operational risk by assessing the level of control of the elements characterising their business environment (Business Environment Evaluation, VCO) and estimating potential losses in the event of potentially harmful operational events (Scenario Analysis, SA);
- the identification of potential operational risks arising from the introduction of new products and services, the launch of new activities and the entry in new markets, as well as risks associated with outsourcing;
- the analysis of operational events and indicators originating from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including ICT and cyber risks, compliance risks, etc.) by the individual Organisational Units.

Measurement and assessment

Measurement is the transformation, using a dedicated model, of the elementary information (internal and external operational loss data, Scenario Analyses and Business Environment Evaluations) into synthetic risk measures. These measures present an adequate detail to allow complete knowledge of the Group's overall risk profile and to allow the quantification of capital at risk for the Group's units.

Monitoring and control

The monitoring of operational risks consists of the analysis and structured organisation of the results obtained from the identification and/or measurement in order to verify and control the evolution over time of the exposure to operational risk (including ICT and cyber risk) and to prevent the occurrence of harmful events.

Mitigation
Mitigation actions, defined on the basis of the results of the identification, measurement and monitoring, consist of:
- the identification, definition and implementation of risk mitigation and transfer activities, in accordance with the established risk appetite;
- the analysis and acceptance of residual operational risks;
- the rationalisation and optimisation, from a cost/benefit perspective, of insurance coverage and any other forms of risk transfer adopted by the Group.

In this regard, in addition to benefiting from a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber-crimes, fire and earthquake, and third-party liability), the Group has taken out an insurance coverage policy named Operational Risk Insurance Programme, in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Communication
Communication consists of setting up adequate information flows related to the management of operational risks between the various actors involved, in order to enable the monitoring of the process and provide adequate knowledge of the exposure to those risks.

Internal model for the measurement of operational risk
The Intesa Sanpaolo Group's internal model for calculating capital absorption (the "advanced measurement approach" or "AMA") is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: Scenario Analysis and Business Environment Evaluation).
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the operational environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

For regulatory purposes, the Group adopts the advanced measurement approach, in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.
The AMA approach is adopted by Intesa Sanpaolo SpA, Mediocredito, belonging to the Banca dei Territori Division, the main companies in the Corporate and Investment Banking, Private Banking and Asset Management divisions, VUB Banka and PBZ Banka.
The capital absorption resulting from this approach amounts to 1,468 million euro as at 30 June 2019, up modestly from 1,414 million euro as at 31 December 2018.
The former Banca Prossima SpA and Banca Apulia SpA, merged into Intesa Sanpaolo SpA in the last quarter, have been included within the AMA scope.

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.

As at 30 June 2019, there were a total of about 18,000 disputes pending (excluding those involving Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 5,433 million euro and allowances of around 609 million euro to cover "likely" payments.

No new significant legal disputes arose during the half year.

For the main pending disputes, the significant developments in the first half of 2019 are described below, while details of the other disputes are provided in the Notes to the 2018 Annual Report.

ENPAM lawsuit – The deadline for the filing of the court-appointed expert report was extended to 28 February 2020 (due to the need for additional research), and the hearing for the examination of the report was set for 12 March 2020.
In the meantime, at the invitation of the court-appointed expert, ENPAM and some of the defendants – including Intesa Sanpaolo (which took over in the proceedings as the absorbing company of Cassa di Risparmio di Firenze) – declared their willingness to consider a settlement solution, but have not yet reached an agreement. In any event, a provision has been made for an amount corresponding to the contribution to the settlement that Intesa Sanpaolo has agreed to pay, which is much lower than the total remedy sought by ENPAM.

Administrative and judicial proceedings against Banca IMI Securities Corp. of New York
With regard to the investigation started in October 2016 by the Antitrust Division of the Department of Justice (DoJ), the procedure was concluded in May 2019, on the basis of a Plea Agreement pursuant to the Federal Rules of Criminal Procedure, according to which IMI SEC has paid a criminal fine of USD 2,207,107.00 on the basis of a violation of the Sherman Antitrust Act, plus a USD 400 special assessment.
US Authorities significantly appreciated the cooperation provided within the overall investigation. The overall paid amount had been already fully provisioned, therefore it does not impact the 2019 balance sheet.

Dargent lawsuit – The claim was filed before a French Court in 2001 by the trustee in bankruptcy for the bankruptcy of the real estate entrepreneur Philippe Dargent, which made a request to the Bank for compensation of 55.6 million euro for the alleged "improper financial support" provided to the entrepreneur. The claim of the trustee in bankruptcy has consistently been rejected by the courts of different instance which dealt with the case over the last 17 years, until the Court of Colmar, on 23 May 2018, ordered the Bank to pay compensation of around 23 million euro (equal to the insolvency liabilities, minus the bank's credit claim and the proceeds from the sale of several assets). An appeal against the Court of Colmar ruling has been lodged with the French Court of Cassation. The amount of the payment ordered has been temporarily deposited with the the appropriate "*Caisse des Reglemetns Pecuniaires des Avocats*". Following the exchange of defence briefs in early 2019 and based on the recently completed in-depth analysis carried out also together with the lawyers assisting the Bank, the risk of a partial payment is considered as probable.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
As at 30 June 2019, Intesa Sanpaolo had pending tax litigation (for tax, penalties and interest) for a total amount of 81 million euro (222 million euro as at 31 December 2018), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 33 million euro (51 million euro as at 31 December 2018).
The figure for the Parent Company also includes the effects of the mergers, during the half year, of Cassa di Risparmio di Firenze S.p.A., Cassa di Risparmio in Bologna S.p.A. and Banca Apulia S.p.A., which led to an increase of approximately 12 million euro in disputed tax claims and 5 million euro in the allowance for tax litigation.
The reduction in the total claim amount was due to the settlement of numerous disputes through the so-called "tax amnesty", with a cost already allocated as at 31 December 2018 of less than 15 million euro (representing around 10% of the claim amount).
With regard to new cases, no significant claims arose during the first six months of the year, except for the assessment notices for IRES and IRAP for the tax years 2014 and 2015 served by the Lombardy Regional Revenue Office - Large Taxpayers Office on Intesa Sanpaolo Private Banking and on the Parent Company, as the consolidating entity, which are discussed below.
With regard to the Parent Company, please note that the Provincial Revenue Office of Florence is also conducting an audit, for the years 2014 and 2015, on an IT services company sold to third parties at the end of 2017, which in those years operated in the form of a consortium company with a shareholding structure composed of companies of the Intesa Sanpaolo Group. The requests for clarification are focusing on the VAT exemption for services provided to the consortium companies in accordance with Article 10, paragraph 2, of Presidential Decree no. 633 of 1972. For the year 2014, the company – in agreement and in coordination with Intesa Sanpaolo – has prepared a reply to the questionnaire received and has started discussions with the Italian Revenue Agency, which has not yet made any claims.
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. At the moment, no claims have been made.

At the Group's other Italian companies, tax disputes totalled 73 million euro as at 30 June 2019 (139 million euro as at 31 December 2018), covered by specific provisions of 16 million euro (47 million euro in the 2018 financial statements). The decrease in both claims and provisions was partly due to the merger of the above-mentioned banks into Intesa Sanpaolo and mostly due to the use of the so-called "tax amnesty" by Banca IMI, Mediocredito Italiano, Intesa Sanpaolo Vita and Fideuram.
Fideuram settled its dispute concerning Euro-Trésorérie for the years 2014 to 2017 arising from the tax audit report served on 11 October 2018 by the Tax Police (*Guardia di Finanza*), following similar claims previously made for the years 2012 and 2013. With respect to an overall assessment claim of 205 million euro, which included 75 million euro for taxes and penalties, Fideuram had allocated 25 million euro in 2018, partly for the 2013 settlement and partly to cover the estimated liability for claims in subsequent years, all settled in 2019 with a total payment of 21.5 million euro.
On 26 June 2019, a favourable ruling for Intesa Sanpaolo Private Banking was issued by the Lombardy Regional Tax Commission, which rejected the main appeal by the Italian Revenue Agency against the ruling by the Milan Provincial Tax Commission, which had in turn upheld the (combined) appeals against the 2011 IRES and IRAP assessment notices (total claim amount of 7.3 million euro, of which 3.8 million euro for taxes and 3.5 million euro for penalties). In the above-mentioned assessment notices the Italian Revenue Agency had alleged an unlawful deduction of the amortisation charge of 11.6 million euro of the goodwill deriving from the transfer of the private banking businesses of Intesa Sanpaolo and Cassa dei Risparmi di Forlì e della Romagna, in the years 2009 and 2010, as realigned by Intesa Sanpaolo Private Banking in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008. The disputes for the years 2011, 2012 and 2013, pending before the tax commissions, have all so far had favourable outcomes for the company. In relation to this dispute, on 8 and 10 April 2019 the Lombardy Regional Revenue Office - Large Taxpayers Office served assessment notices on Intesa Sanpaolo Private Banking and the Parent Company, as the consolidating entity, for IRES and IRAP for the tax years 2014 and 2015 (value of the disputes: 3.9 million euro and 4 million euro for tax, plus penalties and interest). In view of the continued favourable course of this dispute, as well as other factors, the risk of incurring liabilities is considered to be remote.
For Banca IMI, as at 31 December 2018, the remaining tax dispute related to proceedings pending before the Court of Cassation against assessment and adjustment notices for the years 2003, 2004 and 2005 (total remedy sought of almost

20 million euro for tax, penalties and interest). Following the unfavourable decisions in the proceedings on the merits before the Tax Commissions, payments of around 16 million euro, charged in full to the tax allowance, had already been made on a provisional basis for this dispute. As a result of these outcomes, an in-depth examination was conducted with a view to settling the disputes through the so-called "tax amnesty", and the bank decided to exercise this option, also because this would mean that it would no longer have any pending tax disputes.
For Mediocredito Italiano, the Milan Tax Police (*Guardia di Finanza*) initiated a general audit of direct taxes for the tax years 2015 and 2017 and of VAT for the years 2014 and 2015. The requests from the Inspectors are currently focusing on the 2014 VAT and in particular on the tax exemption, pursuant to Article 8-bis of Presidential Decree no. 633/72, applied by the company to the nautical leases. The document gathering process in ongoing and no claims have been made for the time being. During the quarter, Mediocredito also settled two disputes of the former Leasint, through the so-called "tax amnesty": the first for a minor amount relating to VAT in 2001 and the second relating to VAT and IRAP for 2005. For the latter, with respect to a claim amount of 6.8 million euro, the cost of the settlement was only 0.1 million euro.
Intesa Sanpaolo Vita also made use of the "tax amnesty", through which it settled disputes regarding VAT on the services provided via contracts between insurance companies classed as co-insurance contracts (remedy sought of around 8 million euro for tax, plus penalties and interest), with a total payment of 5.8 million euro. The company had not made any provisions for the pending disputes, but in agreement with the independent auditors and based on a resolution of the Board of Directors of 7 May 2019, a receivable of around 5 million euro was recognised, in relation to that cost, for the right of recourse against the following counterparties: Poste Vita, Reale Mutua Assicurazioni, Unipol Assicurazioni and Cardif Assicurazioni. A single VAT dispute for 2013 with a total value of 0.24 million euro is still pending.
The amount of tax disputes involving foreign subsidiaries was limited and almost entirely provisioned. These consisted of claims for a total value of 5 million euro (in line with the end of December 2018) covered by provisions of 4 million euro (same amount at the end of 2018).
The tax audit on IMI SEC is currently underway for the years 2015 and 2016, for which the US tax authorities are contesting the composition of the company's revenues, which have a high level of income originating from outside the State of New York and subject to lower tax. In 2019 the audit was also extended to 2017. No claims have been made for the time being.
The general tax audit (excluding VAT) on CIB Bank Ltd. in relation to the tax years 2015 and 2016 was completed without any particular findings. A VAT tax audit was initiated in May 2019. No claims have been made for the time being.
Moreover, with regard to relations between the international subsidiary banks and Italian customers, the Italian tax authorities are investigating the taxation in Italy of interest arising from the disbursement of loans to individuals resident in Italy and received by banks resident abroad without a permanent establishment in Italy, which would be required to tax the income generated in Italy at the ordinary IRES rate or at the conventional rate, if more favourable.
The Group's subsidiary banks resident in Switzerland (Intesa Sanpaolo Private Bank (Suisse) Morval) and Luxembourg (Intesa Sanpaolo Bank Luxembourg) received questionnaires from the Italian tax authorities, to which they have responded. No claims have been made for the time being.

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 June 2019, the investment portfolios of Group companies, recorded at book value, amounted to 161,939 million euro. Of these, a part amounting to 82,859 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 79,080 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, 84.1% of assets, i.e. 69,599 million euro, were bonds, whereas equity instruments represented 1.5% of the total and amounted to 1,268 million euro. The remainder (11,906 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14.4%).
The carrying value of derivatives came to approximately 86 million euro, of which -13 million euro relating to effective management derivatives[3], and the remaining portion (99 million euro) is attributable to hedging derivatives.
At the end of the first six months of 2019, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 986 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 22 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 3,639 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 6.6% of total investments and A bonds approximately 6.1%. Low investment grade securities (BBB) were approximately 85% 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 78.9% of the total investments, while financial companies (mostly banks) contributed almost 11.7% of exposure and industrial securities made up approximately 9.4%.
At the end of the first half 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 3,709 million euro, with 3,033 million euro due to government issuers and 676 million euro to corporate issuers (financial institutions and industrial companies).

3 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.

Shareholder base, transactions with related parties and other information

Shareholder base

According to records in the Shareholders' Register and the most recent available information, shareholders with stakes with voting rights exceeding 3% of capital – threshold that, if exceeded, requires disclosure to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,188,947,304	6.790%
BlackRock Inc. (*)	876,483,025	5.006%
Fondazione Cariplo	767,029,267	4.381%

(*) Fund management.

With regard to the reports required pursuant to Art. 119, paragraphs 1 and 2, of the Consob Issuers' Regulation concerning investments in financial instruments and aggregated holdings, in the interest of completeness it is reported that the aggregate investment of 6.952%, of which 1.941% with voting rights, disclosed by JPMorgan Chase & Co. in form 120 B updated as at 26 November 2018, has been recalculated in 6.951%, of which 2.674% with voting rights as disclosed in form 120 A dated 20 June 2019, due to the change in Intesa Sanpaolo's share capital of 26 November 2018 as a result of the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. made the original disclosure on 16 July 2018 (through form 120 B) in view of the positions held in relation to the issue of LECOIP 2.0 Certificates, having as underlying instruments Intesa Sanpaolo ordinary shares, that the Intesa Sanpaolo Group's employees received under the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments.

Transactions with related parties

1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.
These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:
– the criteria for identifying Related Parties and Associated Entities;
– the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
– market disclosure for transactions with Related Parties;
– the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
– the rules governing organisational controls and safeguards;
– the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.
The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of the total of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least two of the following indicators:

- the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.

The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full or partial exemptions from the application of the regulations is also envisaged.

With regard to the decision-making for transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for persons other than natural persons (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for persons other than natural persons) but lower than or equal to the most significant thresholds indicated below;
- most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for the Intesa Sanpaolo Group);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.

For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.

All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.

The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup less significant transactions carried out at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.
In particular, Article 2391 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

2. Information on balances with related parties

Receivable and payable balances with related parties as at 30 June 2019 within the consolidated accounts – other than those intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

	30.06.2019	
	Amount (millions of euro)	Impact (%)
Total financial assets [(1)]	6,658	0.9
Total other assets [(2)]	120	0.8
Total financial liabilities [(3)]	6,156	0.9
Total other liabilities [(4)]	603	0.5

(1) Includes captions 20, 30, 35, 40 ,45 and 70 of balance sheet assets

(2) Includes captions 50, 60, 120 and 130 of balance sheet assets

(3) Includes captions 10, 15, 20, 30 and 35 of balance sheet liabilities

(4) Includes captions 40, 50, 70, 80, 90, 100 and 110 of balance sheet liabilities

	30.06.2019	
	Amount (millions of euro)	Impact (%)
Total interest income	48	0.9
Total interest expense	16	1.0
Total fee and commission income	9	0.2
Total fee and commission expense	11	0.9
Total operating costs [(1)]	62	1.3

(1) Includes caption 180 of the income statement

In relation to associates and companies subject to joint control, in the period a total of around 5 million euro of net adjustments to loans were recorded.
The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope set as a form of self-regulation.
The following table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 12 million euro.

(millions of euro)

	Subsidiaries not consolidated on a line-by-line basis	Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	11	-	148	-	-	159	2	982
a) financial assets held for trading	*-*	*-*	*3*	*-*	*-*	*3*	*2*	*977*
b) financial assets designated at fair value	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
c) other financial assets mandatorily measured at fair value	*11*	*-*	*145*	*-*	*-*	*156*	*-*	*5*
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	21	-
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-	-	3	-	-	3	2	211
Financial assets measured at amortised cost	5	49	355	8	-	417	24	3,766
a) due from banks	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*3,149*
b) loans to customers	*5*	*49*	*355*	*8*	*-*	*417*	*24*	*617*
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Other assets	7	-	8	-	2	17	-	103
Investments in associates and companies subject to joint control	48	56	967	-	-	1,071	-	-
Financial liabilities measured at amortised cost	121	8	495	20	109	753	316	1,796
a) due to banks	*69*	*-*	*3*	*-*	*-*	*72*	*-*	*1,592*
b) due to customers	*52*	*8*	*492*	*20*	*109*	*681*	*316*	*204*
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	-	-	-	-	-	3,291
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-	-	-	-	-	-
Other financial liabilities	2	-	43	6	505	556	3	44
Guarantees and committments given	9	29	314	1	-	353	127	1,296
Guarantees and committments received	-	13	158	7	-	178	5	369
Total	**203**	**155**	**2,491**	**42**	**616**	**3,507**	**500**	**11,858**

(*) Shareholders and their groups that hold a stake in the share capital that exceeds the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies, calculated considering only shares owned or under management (currently 3%), as well as entities jointly controlled by them.

(**) Companies that meet the conditions of at least two of these indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group to the counterparty. The amounts mostly refer to JPMorgan Chase & Co., in relation to the aggregate investment equal to 6.952%, of which 1.941% with voting rights, recorded by JPMorgan Chase & Co. with form 120 B updated at 26 November 2018 and recalculated in 6.951%, of which 2.674% with voting rights reported with form 120 A of 20 June 2019, as a consequence of the change in share capital taking place on 26 November 2018 following the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. had submitted the original report on 16 July 2018 (with form 120 B) following the positions held against the issue of "LECOIP 2.0 Certificate on Intesa Sanpaolo ordinary shares" received by the employees of the Intesa Sanpaolo Group as part of the LECOIP 2.0 2018-2021 Long-Term Incentive Plan based on financial instruments.

For the sake of completeness, the Group's most significant associates included in the category of related parties in accordance with the version of IAS 24 in effect are: Intrum Italy S.p.A., Penghua Fund Management Co. Ltd, Equiter S.p.A., AM InvestCO Italy S.p.A., CAF S.p.A. Cassa di Risparmio di Fermo S.p.A., FI.NAV – Comparto A1 Crediti, Autostrada Pedemontana Lombarda S.p.A., IDeAMI S.p.A., Consorzio Bancario Sir S.p.A. in liquidation and Rainbow. The main joint ventures include: Mir Capital Sca Sicar, PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management and VUB Generali Dochodkova Spravcovska Spolocnost A.S.

3. Information on transactions with related parties

Most significant transactions

During the year, the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.
Please note that the most significant transactions in the period are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.5 billion euro) or of the other indicators defined by the Consob regulation.

Most significant intragroup transactions

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – a portfolio of mortgage loans was sold to the SPV ISP OBG S.r.l. during the period for about 2.8 billion euro.

Other significant transactions

Transactions entered into with related parties fall within the scope of the Group's ordinary activities and are usually entered into at market conditions, in any case based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.
The main less significant transactions concluded during the year by the Parent Company or subsidiaries with related parties are reported below.
Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level.
Relations between the Intesa Sanpaolo Group, board members and general managers, their close family members and entities controlled by them refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.

With respect to transactions with Shareholders with equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (to which the provisions governing transactions with related parties were extended as a form of self-regulation, subjecting them to the same assessment, approval and disclosure procedure as applied to transactions with related parties), mainly ordinary lending transactions were undertaken, settled at market conditions.
In particular, ordinary transactions in OTC financial instruments were also carried out by Banca IMI S.p.A. in the course of continuing operations, with JP Morgan Securities PLC, Blackrock Fund Managers Ltd. and Quaestio Capital SGR S.p.A., an entity attributable to Fondazione Cariplo.
In addition, Intesa Sanpaolo Vita S.p.A. subscribed for a Luxembourg alternative fund set up and managed by Blackrock Financial Management Inc. for 200 million euro.
Finally, Intesa Sanpaolo Innovation Center S.p.A., Compagnia di San Paolo and Fondazione Sviluppo e Crescita di Fondazione Cassa di Risparmio di Torino entered into an agreement establishing a joint and several obligation for the parties towards the U.S. company Techstars. The transaction, which amounts to around 8 million euro, is intended to support initiatives undertaken by Intesa Sanpaolo Innovation Center S.p.A. to develop and learn future new businesses. The agreement provides for an outlay by the above companies of 3 million dollars a year in equal instalments for three years.

In transactions with entities subject to joint control or significant influence, mention should be made of the loans granted and renewed for Euromilano S.p.A., the transactions in OTC financial instruments by Banca IMI S.p.A. with Cassa di Risparmio di Fermo of 573 million euro and the five-year extension of the maturity of the shareholders' loan granted by Intesa Sanpaolo S.p.A. to RCN Finanziaria S.p.A. for a total of 13 million euro.
In addition, two guarantees granted by Intesa Sanpaolo S.p.A. within the framework of the aircraft lease agreement entered into between Alitalia Società Aerea Italiana S.p.A. in extraordinary administration and MDAC 10 Ltd in February 2012 were extended by one year. This extension was functional to the continuation of the aircraft lease agreements and the transaction amounted to 3.5 million euro.

Finally, transactions conducted with Pension funds for employees of Intesa Sanpaolo and other Group Companies included ordinary transactions in OTC financial instruments by Banca IMI S.p.A. with Cariplo Pension Fund.

Other significant information

With regard to investments carried at equity, adjustments were posted deriving from Rainbow.
For pension funds benefiting the Group's employees in which Intesa Sanpaolo companies are co-obliged by virtue of guarantees given, payments were made during the period for the settlement of the technical imbalance of the funds concerned.

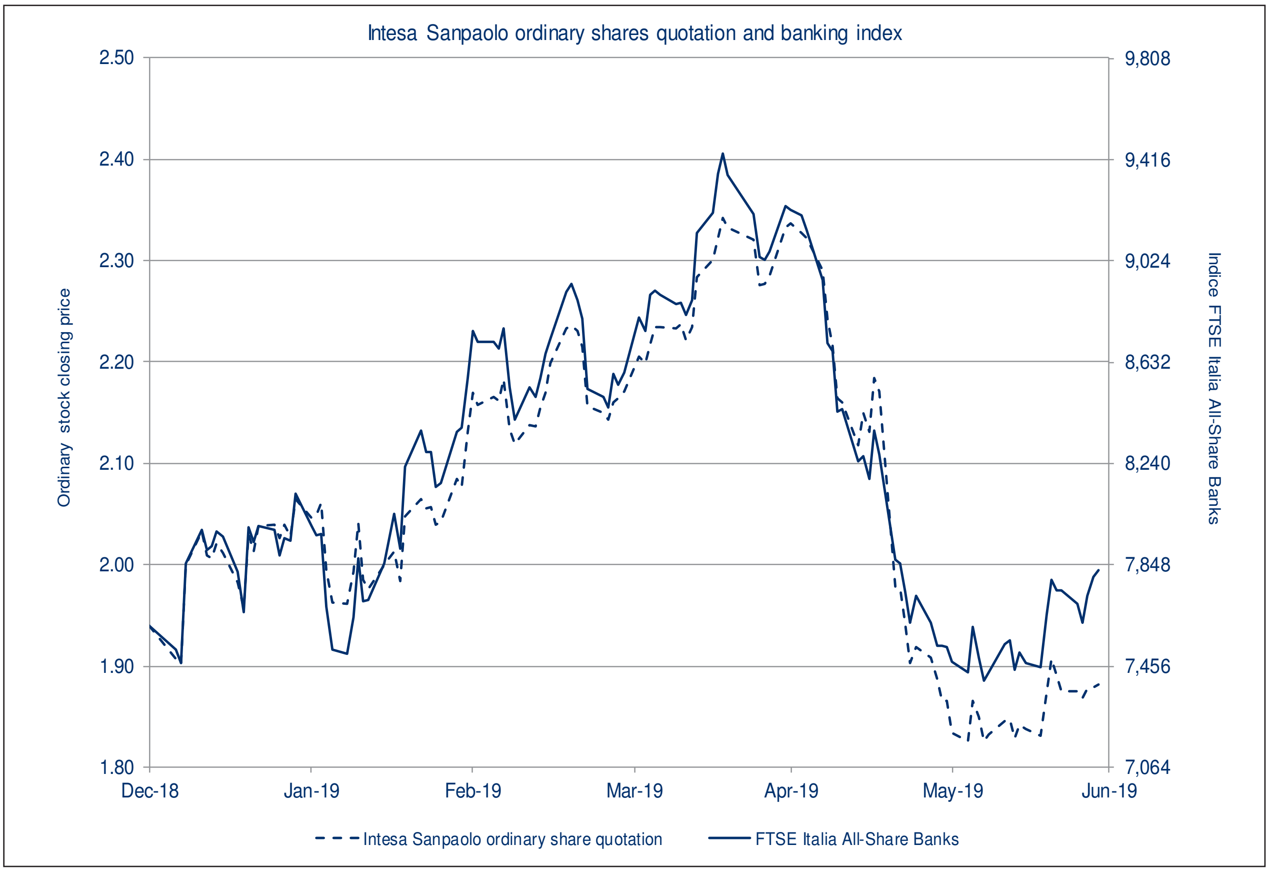
Stock price performance

In the first half of 2019, against the backdrop of a general increase in risk appetite amongst investors, due in part to the monetary policies of central banks, which returned to an expansionary stance in support of a gradually slowing international economic cycle, the European banking sector index initially delivered a positive performance, reaching gains of 20% on the end of the previous year (high on 17 April 2019). The index then retraced its progress, ending the first half of 2019 nearly at the levels of the end of 2018 (+1.3% year-to-date). The European banking index underperformed the Eurostoxx 50 index by 14.5% in the first half of 2019.

Within this scenario, the performance of the Italian banking industry essentially mirrored that of the European sector index: after posting year-to-date gains of up to 25% early in the half-year, the index then retraced its progress due to political uncertainty, which drove the BTP-Bund spread over 280 bps, ending the half-year up 2.8% on the end of 2018. In the first half of 2019, the Italian banking index underperformed the FTSE MIB by 13.1% and outperformed the European banking index by 1.6%.

The performance of Intesa Sanpaolo ordinary shares in the first half of 2019 mirrored that of the banking sector indices, showing an upward trend until mid-April, when the stock price peaked, followed by fluctuation until early May, and then a sharp downtrend until early June, when the low was reached. The shares then rebounded, ending the half-year down 3% on the end of 2018.

Intesa Sanpaolo's capitalisation amounted to 33 billion euro at the end of June 2019, compared with 34 billion euro at the end of 2018.



Earnings per share

Intesa Sanpaolo's share capital now consists solely of ordinary shares.

Net income attributable to ordinary shares was determined considering the most recent dividends approved and then allocating the residual portion of net income, in the hypothetical assumption of its total distribution, in equal weight to all outstanding shares. The Earnings Per Share (EPS) indicator is presented both in the "basic" and in the "diluted" formula: basic EPS is calculated by dividing income theoretically attributable to holders of shares by the weighted average number of the shares outstanding; diluted EPS takes into account the effect of any future issues.

	30.06.2019	30.06.2018	
	Ordinary shares	Ordinary shares	Savings shares
Weighted average number of shares	17,476,679,686	15,835,756,750	932,490,561
Income attributable to the various categories of shares (millions of euro)	2,266	2,048	131
Basic EPS (euro)	0.13	0.13	0.14
Diluted EPS (euro)	0.13	0.13	0.14
Basic EPS annualised (*) (euro)	0.26	0.26	0.28
Diluted EPS annualised (*) (euro)	0.26	0.26	0.28

(*) Income is not indicative of the forecast net income for the year, since it is obtained by annualising the net income for the period.

Price/book value

(millions of euro)

	30.06.2019	1st half 2019	2018	2017	2016	2015
Market capitalisation	32,953	36,228	44,947	44,820	37,152	51,903
Shareholders' equity	53,535	53,780	53,646	52,558	48,344	46,230
Price / book value	**0.62**	**0.67**	**0.84**	**0.85**	**0.77**	**1.12**

The index reflects the value attributed by the market to the share capital of a listed company, and hence indirectly to the company's overall assets. The index, while measuring the confidence which financial analysts and the financial community have in the company's income prospects and capital strength, is affected significantly by the external factors that influence stock prices. Also for the Intesa Sanpaolo Group, the performance of the index – as at 30 June 2019 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

Rating

On 7 May 2019, Fitch placed ISP's "F-2" short-term rating under observation with negative implications, following the implementation of new methodological criteria to be applied to the banking system in general. On 30 May, DBRS then confirmed its "BBB (high)"/"R-1 (low)" rating and stable trend for ISP, in line with the ratings for Italy.

The following table shows the ratings assigned by the main agencies to Intesa Sanpaolo as of June 30, 2019.

	RATING AGENCY			
	DBRS	Fitch Ratings	Moody's	S&P Global Ratings
Short-term debt	R-1 (low) (2)	F2(1)	P-2	A-2
Long-term senior debt	BBB (high)	BBB	Baa1(3)	BBB
Outlook / Trend	Stable	Negative	Stable	Negative
Viability	-	bbb	-	-

(1) Rating under review with negative implications, following the introduction of methodological changes.

(2) Stable trend.

(3) Senior debt rating. The rating on deposits is "Baa1" with stable outlook.

With regard to the above, please note that after the close of the half year, on 26 July 2019, Fitch Ratings confirmed the F2 short-term rating assigned to the Bank.

Forecast for the year

Global economic growth is expected to speed up in the second half of 2019, but in a scenario still marked by significant uncertainty, where there are very limited signs of a turnaround. With regard to potential risks, the trade war between China and the United States could escalate further. Moreover, at the end of the year, USA could also threaten to apply duties also to car imports from Europe. Lastly, the United Kingdom is set to leave the European Union on 31 October, potentially without ratifying a withdrawal agreement. The increased tensions in the Strait of Hormuz, a crucial chokepoint for the global oil market, must also be noted.
That climate of uncertainty explains the decisions of central banks to ease monetary policy. The Federal Reserve announced that it will slightly cut official rates, though less aggressively than expected by the markets. The European Central Bank has planned various stimulus measures, should the economy fail to show significant improvement: modifications to its forward guidance, cuts to official rates and changes to the securities purchasing programme.
In general, European economic growth may have hit a low point in the second quarter, but modest recovery is expected in the second half of 2019. A further significant widening of risk premiums on Italian debt cannot be excluded if the fiscal package does not meet the condition of ensuring a decrease in the debt-to-GDP ratio. However, if the government does ensure a reduction in the debt-to-GDP ratio and continues the fiscal consolidation, risk premiums could start to fall again, as occurred at the beginning of the summer. Growth in the Italian economy, more or less nil to date, could return to marginally positive ground in the second half, if the strengthening of foreign demand is confirmed.
In the second half of 2019 growth rates in emerging economies are expected to recover, due to more accommodating financial conditions, support to certain areas of public spending for investments (including in Russia and the GCC Group countries) and economic reforms announced by the authorities (in Brazil, among others), and the fact that several extraordinary events (especially floods and droughts) that in some cases weighed heavily in the first part of the year, have been overcome. However, there are still risks of possible deterioration, in the event of deterioration of the current trade disputes (that between the United States and China above all) and geopolitical tensions (specifically, in the Gulf area).
In countries with ISP subsidiaries, in 2019 the GDP is expected to slow down on the particularly high pace recorded in 2018, both in the CEE and SEE areas, and compared to that seen in the initial months of this year. In CSI countries, the expected expansion of the real GDP will remain low on an annual basis, specifically in Russia, penalised by the comparison with the strong performance in the previous year.
In the MENA area, instead, growth is expected to accelerate in Egypt, due to the expansion of gas extraction and the increased contribution expected from inflows of external currency, specifically from tourism, remittances and proceeds from the Suez Canal, which were recently negatively impacted by acts of terrorism, regional geopolitical tensions and internal politics.
In the Italian banking system, for the rest of 2019 lending to businesses is expected to remain lacklustre. Performance will be affected by the weakness of the Italian economy and the continued climate of uncertainty, which tends to reduce demand. However, in support of bank lending, interest rates remain very low. For households, the lending scenario remains positive. Residential mortgages will continue to be favoured by low rates and by the prospects of a resilient real estate market, despite the fact that aggregate house prices are still falling.
Customer deposits will see continued growth, as well as the net redemption of bonds in the retail segment. Low market yields, the climate of uncertainty and the significant liquidity available will continue to fuel the balances on current accounts. It is assumed that the recovery in time deposits will continue, boosted by attractive remuneration policies, especially in circumstances where banks have difficulties in accessing medium-term funding on the market. On the other hand, the favourable conditions of the new targeted refinancing operations under the Eurosystem (TLTRO III), scheduled to start in September, will help to counteract the high cost of issues on the market, resulting from a risk premium that continues to be penalising to Italian banks with respect to European competitors. In any event, in the rest of 2019 the average cost of banking system customer funding will continue to benefit from the shift of the aggregate components towards less costly forms. Indeed, current account ratesare still seen at an all-time low. For rates on loans, despite the gradual repricing policies, conditions will remain relaxed, also favoured by the TLTRO III. At the same time, competition will continue on loans to the best customers.

In 2019, the Group’s net income is expected to grow compared with 2018 as a result of growth in revenues, continuous reduction in operating costs and decrease in the cost of risk. The dividend policy for 2019 envisages the distribution of cash dividends corresponding to a payout ratio of 80% of net income.

The Board of Directors

Milan, 31 July 2019

Certification of the Half-yearly condensed consolidated financial statements pursuant to Article 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina, as Managing Director and CEO, and Fabrizio Dabbene, as Manager responsible for preparing the Company's financial reports of Intesa Sanpaolo, also taking into account the provisions of Article 154 bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, hereby certify:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the Half-yearly condensed consolidated financial statements, in the first half of 2019.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Half-yearly condensed consolidated financial statements as at 30 June 2019 was based on methods defined by Intesa Sanpaolo consistently with the COSO and, as to the IT component, COBIT models, which are internationally accepted frameworks for internal control systems[4].

3. The undersigned also certify that:

   3.1. the Half-yearly condensed consolidated financial statements as at 30 June 2019:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 of 19 July 2002;
   - correspond to the results of the accounting books and records;
   - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation.

   3.2. The Half-yearly report on operations contains a reliable analysis of the most significant events in the first six months of the year and their impact on the Half-yearly condensed consolidated financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Half-yearly report on operations also includes a reliable analysis of significant transactions with related parties.

31 July 2019

Carlo Messina Managing Director and CEO	Fabrizio Dabbene Manager responsible for preparing the Company's financial reports

[4] The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control OBjectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

Independent Auditors’ Report

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the shareholders of
Intesa Sanpaolo S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Intesa Sanpaolo Group, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2019. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusions

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Intesa Sanpaolo Group as at and for the six months ended 30 June 2019 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 2 August 2019

KPMG S.p.A.

(signed on the original)

Mario Corti
Director of Audit

Attachments

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

(millions of euro)

		30.06.2018 Published	Effect of transition to IFRS 16	Change in the scope of consolidation (a)	Reclassification Deposit Protection Fund International Subsidiary Banks (b)	30.06.2018 Restated
10.	Interest and similar income	5,244	-	2	-	5,246
	of which: interest income calculated using the effective interest rate method	*5,177*	-	-	-	*5,177*
20.	Interest and similar expense	-1,516	-14	-50	-	-1,580
30.	**Interest margin**	**3,728**	**-14**	**-48**	**-**	**3,666**
40.	Fee and commission income	4,978	-	6	-	4,984
50.	Fee and commission expense	-1,152	-	-1	-	-1,153
60.	**Net fee and commission income**	**3,826**	**-**	**5**	**-**	**3,831**
70.	Dividend and similar income	67	-	-	-	67
80.	Profits (Losses) on trading	290	-	1	-	291
90.	Fair value adjustments in hedge accounting	-18	-	-	-	-18
100.	Profits (Losses) on disposal or repurchase of:	417	-	-	-	417
	a) financial assets measured at amortised cost	*-28*	-	-	-	*-28*
	b) financial assets measured at fair value through other comprehensive income	*416*	-	-	-	*416*
	c) financial liabilities	*29*	-	-	-	*29*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	264	-	-	-	264
	a) financial assets and liabilities designated at fair value	*2*	-	-	-	*2*
	b) other financial assets mandatorily measured at fair value	*262*	-	-	-	*262*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,791	-	-	-	1,791
120.	**Net interest and other banking income**	**10,365**	**-14**	**-42**	**-**	**10,309**
130.	Net losses/recoveries for credit risks associated with:	-1,236	-	-	-	-1,236
	a) financial assets measured at amortised cost	*-1,233*	-	-	-	*-1,233*
	b) financial assets measured at fair value through other comprehensive income	*-3*	-	-	-	*-3*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-	-	-	-8
140.	Profits (Losses) on changes in contracts without derecognition	-5	-	-	-	-5
150.	**Net income from banking activities**	**9,116**	**-14**	**-42**	**-**	**9,060**
160.	Net insurance premiums	3,406	-	-	-	3,406
170.	Other net insurance income (expense)	-4,419	-	-	-	-4,419
180.	**Net income from banking and insurance activities**	**8,103**	**-14**	**-42**	**-**	**8,047**
190.	Administrative expenses:	-4,917	116	-24	-23	-4,848
	a) personnel expenses	*-2,918*	-	*12*	-	*-2,906*
	b) other administrative expenses	*-1,999*	*116*	*-36*	*-23*	*-1,942*
200.	Net provisions for risks and charges	-30	-	-	-	-30
	a) commitments and guarantees given	*68*	-	-	-	*68*
	b) other net provisions	*-98*	-	-	-	*-98*
210.	Net adjustments to / recoveries on property and equipment	-181	-107	-	-	-288
220.	Net adjustments to / recoveries on intangible assets	-274	-	-9	-	-283
230.	Other operating expenses (income)	391	-	43	23	457
240.	**Operating expenses**	**-5,011**	**9**	**10**	**-**	**-4,992**
250.	Profits (Losses) on investments in associates and companies subject to joint control	20	-	-	-	20
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-	-
270.	Goodwill impairment	-	-	-	-	-
280.	Profits (Losses) on disposal of investments	-	-	-	-	-
290.	**Income (Loss) before tax from continuing operations**	**3,112**	**-5**	**-32**	**-**	**3,075**
300.	Taxes on income from continuing operations	-916	2	9	-	-905
310.	**Income (Loss) after tax from continuing operations**	**2,196**	**-3**	**-23**	**-**	**2,170**
320.	Income (Loss) after tax from discontinued operations	-	-	-	-	-
330.	**Net income (loss)**	**2,196**	**-3**	**-23**	**-**	**2,170**
340.	Minority interests	-17	3	23	-	9
350.	**Parent Company's net income (loss)**	**2,179**	**-**	**-**	**-**	**2,179**

(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 six months of 2018 of Autostrade Lombarde and of the Intrum transaction.

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

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		30.06.2019	01.01.2019 IFRS16	Changes amount	%
10.	Cash and cash equivalents	6,538	10,350	-3,812	-36.8
20.	Financial assets measured at fair value through profit or loss	53,359	42,115	11,244	26.7
	a) financial assets held for trading	*49,773*	*38,806*	*10,967*	*28.3*
	b) financial assets designated at fair value	*195*	*208*	*-13*	*-6.3*
	c) other financial assets mandatorily measured at fair value	*3,391*	*3,101*	*290*	*9.4*
30.	Financial assets measured at fair value through other comprehensive income	66,345	60,469	5,876	9.7
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	159,171	149,546	9,625	6.4
40.	Financial assets measured at amortised cost	491,435	476,503	14,932	3.1
	a) due from banks	*78,253*	*69,307*	*8,946*	*12.9*
	b) loans to customers	*413,182*	*407,196*	*5,986*	*1.5*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	568	952	-384	-40.3
50.	Hedging derivatives	3,384	2,993	391	13.1
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,892	124	1,768	
70.	Investments in associates and companies subject to joint control	1,071	943	128	13.6
80.	Technical insurance reserves reassured with third parties	24	20	4	20.0
90.	Property and equipment	8,822	8,979	-157	-1.7
100.	Intangible assets	9,028	9,077	-49	-0.5
	of which:				
	- goodwill	*4,163*	*4,163*	*-*	*-*
110.	Tax assets	16,120	17,253	-1,133	-6.6
	a) current	*2,374*	*3,320*	*-946*	*-28.5*
	b) deferred	*13,746*	*13,933*	*-187*	*-1.3*
120.	Non-current assets held for sale and discontinued operations	803	1,297	-494	-38.1
130.	Other assets	9,805	8,695	1,110	12.8
Total assets		**828,365**	**789,316**	**39,049**	**4.9**

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2019	01.01.2019 IFRS16	Changes amount	%
10.	Financial liabilities measured at amortised cost	533,203	515,365	17,838	3.5
	a) due to banks	*120,084*	*107,815*	*12,269*	*11.4*
	b) due to customers	*330,025*	*325,490*	*4,535*	*1.4*
	c) securities issued	*83,094*	*82,060*	*1,034*	*1.3*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	856	819	37	4.5
20.	Financial liabilities held for trading	51,187	41,895	9,292	22.2
30.	Financial liabilities designated at fair value	4	4	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,027	67,800	4,227	6.2
40.	Hedging derivatives	10,731	7,221	3,510	48.6
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	633	398	235	59.0
60.	Tax liabilities	2,056	2,433	-377	-15.5
	a) current	*312*	*163*	*149*	*91.4*
	b) deferred	*1,744*	*2,270*	*-526*	*-23.2*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	254	258	-4	-1.6
80.	Other liabilities	13,572	11,641	1,931	16.6
90.	Employee termination indemnities	1,203	1,190	13	1.1
100.	Allowances for risks and charges	4,057	5,064	-1,007	-19.9
	a) commitments and guarantees given	*450*	*510*	*-60*	*-11.8*
	b) post-employment benefits	*258*	*261*	*-3*	*-1.1*
	c) other allowances for risks and charges	*3,349*	*4,293*	*-944*	*-22.0*
110.	Technical reserves	84,710	80,797	3,913	4.8
120.	Valuation reserves	-474	-913	-439	-48.1
125.	Valuation reserves pertaining to insurance companies	322	9	313	
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,230	13,006	224	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 (-)	-72	-84	-12	-14.3
190.	Minority interests (+/-)	337	407	-70	-17.2
200.	Net income (loss) (+/-)	2,266	4,050	-1,784	-44.0
Total liabilities and shareholders' equity		**828,365**	**789,316**	**39,049**	**4.9**

Restated consolidated income statement

(millions of euro)

		30.06.2019	30.06.2018 Restated	Changes amount	%
10.	Interest and similar income	5,141	5,246	-105	-2.0
	of which: interest income calculated using the effective interest rate method	*5,309*	*5,177*	*132*	*2.5*
20.	Interest and similar expense	-1,661	-1,580	81	5.1
30.	**Interest margin**	**3,480**	**3,666**	**-186**	**-5.1**
40.	Fee and commission income	4,803	4,984	-181	-3.6
50.	Fee and commission expense	-1,164	-1,153	11	1.0
60.	**Net fee and commission income**	**3,639**	**3,831**	**-192**	**-5.0**
70.	Dividend and similar income	81	67	14	20.9
80.	Profits (Losses) on trading	317	291	26	8.9
90.	Fair value adjustments in hedge accounting	-39	-18	21	
100.	Profits (Losses) on disposal or repurchase of:	814	417	397	95.2
	a) financial assets measured at amortised cost	*90*	*-28*	*118*	
	b) financial assets measured at fair value through other comprehensive income	*628*	*416*	*212*	*51.0*
	c) financial liabilities	*96*	*29*	*67*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	15	264	-249	-94.3
	a) financial assets and liabilities designated at fair value	*-70*	*2*	*-72*	
	b) other financial assets mandatorily measured at fair value	*85*	*262*	*-177*	*-67.6*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	2,009	1,791	218	12.2
120.	**Net interest and other banking income**	**10,316**	**10,309**	**7**	**0.1**
130.	Net losses/recoveries for credit risks associated with:	-1,005	-1,236	-231	-18.7
	a) financial assets measured at amortised cost	*-990*	*-1,233*	*-243*	*-19.7*
	b) financial assets measured at fair value through other comprehensive income	*-15*	*-3*	*12*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-4	-8	-4	-50.0
140.	Profits (Losses) on changes in contracts without derecognition	-2	-5	-3	-60.0
150.	**Net income from banking activities**	**9,305**	**9,060**	**245**	**2.7**
160.	Net insurance premiums	4,763	3,406	1,357	39.8
170.	Other net insurance income (expense)	-6,086	-4,419	1,667	37.7
180.	**Net income from banking and insurance activities**	**7,982**	**8,047**	**-65**	**-0.8**
190.	Administrative expenses:	-4,747	-4,848	-101	-2.1
	a) personnel expenses	*-2,830*	*-2,906*	*-76*	*-2.6*
	b) other administrative expenses	*-1,917*	*-1,942*	*-25*	*-1.3*
200.	Net provisions for risks and charges	-2	-30	-28	-93.3
	a) commitments and guarantees given	*39*	*68*	*-29*	*-42.6*
	b) other net provisions	*-41*	*-98*	*-57*	*-58.2*
210.	Net adjustments to / recoveries on property and equipment	-259	-288	-29	-10.1
220.	Net adjustments to / recoveries on intangible assets	-325	-283	42	14.8
230.	Other operating expenses (income)	420	457	-37	-8.1
240.	**Operating expenses**	**-4,913**	**-4,992**	**-79**	**-1.6**
250.	Profits (Losses) on investments in associates and companies subject to joint control	27	20	7	35.0
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	1	-	1	
290.	**Income (Loss) before tax from continuing operations**	**3,097**	**3,075**	**22**	**0.7**
300.	Taxes on income from continuing operations	-832	-905	-73	-8.1
310.	**Income (Loss) after tax from continuing operations**	**2,265**	**2,170**	**95**	**4.4**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**2,265**	**2,170**	**95**	**4.4**
340.	Minority interests	1	9	-8	-88.9
350.	**Parent Company’s net income (loss)**	**2,266**	**2,179**	**87**	**4.0**

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		30.06.2019	01.01.2019 IFRS16
Due from banks		**77,141**	**68,723**
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	77,136	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	5	2
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers		**394,253**	**393,550**
Loans to customers measured at amortised cost		***393,243***	***392,945***
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	388,118	388,448
- Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-660	-654
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,785	5,151
Loans to customers at fair value through other comprehensive income and through profit or loss		***1,010***	***605***
Caption 20a (partial)	Financial assets held for trading - Loans to customers	28	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	633	502
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	349	28
Financial assets measured at amortised cost which do not constitute loans		**20,396**	**14,183**
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	1,117	586
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	19,279	13,597
Financial assets at fair value through profit or loss		**52,693**	**41,536**
Caption 20a (partial)	Financial assets held for trading	49,745	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	2,753	2,597
Financial assets at fair value through other comprehensive income		**65,996**	**60,441**
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	65,996	60,441
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		**159,171**	**149,546**
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	159,171	149,546
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**568**	**952**
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	568	952
Investments in associates and companies subject to joint control		**1,071**	**943**
Caption 70	Investments in associates and companies subject to joint control	1,071	943
Property, equipment and intangible assets		**16,895**	**17,081**
Assets owned		***15,325***	***15,452***
Caption 90 (partial)	Property and equipment	7,252	7,350
Caption 100	Intangible assets	9,028	9,077
- Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-955	-975
Rights of use acquired under leases		***1,570***	***1,629***
Caption 90 (partial)	Property and equipment	1,570	1,629
Tax assets		**16,120**	**17,253**
Caption 110	Tax assets	16,120	17,253
Non-current assets held for sale and discontinued operations		**803**	**1,297**
Caption 120	Non-current assets held for sale and discontinued operations	803	1,297
Other assets		**23,258**	**23,811**
Caption 10	Cash and cash equivalents	6,538	10,350
+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	660	654
Caption 50	Hedging derivatives	3,384	2,993
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	1,892	124
Caption 80	Technical insurance reserves reassured with third parties	24	20
+Caption 100 (partial)	Intangible assets (concession rights - intangible component)	955	975
Caption 130	Other assets	9,805	8,695
Total Assets		**828,365**	**789,316**

(millions of euro)

Liabilities		30.06.2019	01.01.2019 IFRS16
Due to banks at amortised cost		**120,077**	**107,815**
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	120,084	107,815
- Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-7	-
Due to customers at amortised cost and securities issued		**411,588**	**405,960**
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	330,025	325,490
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	83,094	82,060
- Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,531	-1,590
Financial liabilities held for trading		**51,187**	**41,895**
Caption 20	Financial liabilities held for trading	51,187	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		**847**	**810**
Caption 15	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	856	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		**72,027**	**67,800**
Caption 35	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,027	67,800
Tax liabilities		**2,056**	**2,433**
Caption 60	Tax liabilities	2,056	2,433
Liabilities associated with non-current assets held for sale and discontinued operations		**254**	**258**
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	254	258
Other liabilities		**26,483**	**20,859**
Caption 40	Hedging derivatives	10,731	7,221
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	633	398
Caption 80	Other liabilities	13,572	11,641
Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	7	-
Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,531	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		**84,710**	**80,797**
Caption 110	Technical reserves	84,710	80,797
Allowances for risks and charges		**5,260**	**6,254**
Caption 90	Employee termination indemnities	1,203	1,190
Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	450	510
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	258	261
Caption 100 c)	Allowances for risks and charges - Other allowances for risks and charges	3,349	4,293
Share capital		**9,086**	**9,085**
Caption 170	Share capital	9,086	9,085
Reserves		**38,232**	**37,690**
Caption 130	Redeemable shares	-	-
Caption 150	Reserves	13,230	13,006
Caption 160	Share premium reserve	25,074	24,768
- Caption 180	Treasury shares	-72	-84
Valuation reserves		**-474**	**-913**
Caption 120	Valuation reserves	-474	-913
Valuation reserves pertaining to insurance companies		**322**	**9**
Caption 125	Valuation reserves pertaining to insurance companies	322	9
Equity instruments		**4,103**	**4,103**
Caption 140	Equity instruments	4,103	4,103
Minority interests		**337**	**407**
Caption 190	Minority interests	337	407
Net income (loss)		**2,266**	**4,050**
Caption 200	Net income (loss) (+/-)	2,266	4,050
Total Liabilities and Shareholders' Equity		**828,365**	**789,316**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions		30.06.2019	30.06.2018 Restated
Net interest income		**3,517**	**3,691**
Caption 30	Interest margin	3,480	3,666
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	52	61
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	14	3
+ Caption 80 (partial)	Hedging swap differentials	-54	-50
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-14	-21
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-1	-3
- Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	-18	-24
- Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	58	59
Net fee and commission income		**3,875**	**4,042**
Caption 60	Net fee and commission income	3,639	3,831
- Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	132	195
- Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	2	1
- Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	120	37
+ 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)	3	-
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-21	-22
Income from insurance business		**575**	**575**
Caption 160	Net insurance premiums	4,763	3,406
Caption 170	Other net insurance income (expense)	-6,086	-4,419
+ Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	-3	-6
+ Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	-132	-195
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	2,009	1,791
+ Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	18	24
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	8	-26
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	-2	-
Profits (Losses) on financial assets and liabilities designated at fair value		**1,090**	**1,057**
Caption 80	Profits (Losses) on trading	317	291
Caption 90	Fair value adjustments in hedge accounting	-39	-18
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	-70	2
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	85	262
Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	628	416
Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	96	29
+ Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	-120	-37
+ 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)	80	56
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial companies 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	-8	26
- Caption 80 (partial)	Hedging swap differentials	54	50
- Caption 80 (partial)	Profits (Losses) on trading (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)	-12	-
- 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)	-8	-1
+ Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	-	-10
Other operating income (expenses)		**9**	**55**
Caption 70	Dividend and similar income	81	67
Caption 230	Other operating expenses (income)	420	457
+ Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	-58	-59
+ Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	-2	-1
- 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)	-80	-56
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-9	-3
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-367	-368
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	1
- Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-1
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	24	18
Operating income		**9,066**	**9,420**

(millions of euro)

Captions		30.06.2019	30.06.2018 Restated
Personnel expenses		**-2,805**	**-2,879**
Caption 190 a)	Personnel expenses	-2,830	-2,906
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	11	6
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	14	21
Other administrative expenses		**-1,153**	**-1,229**
Caption 190 b)	Other administrative expenses	-1,917	-1,942
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	15	8
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	352	312
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	21	22
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	367	368
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	9	3
Adjustments to property, equipment and intangible assets		**-512**	**-511**
Caption 210	Net adjustments to / recoveries on property and equipment	-259	-288
Caption 220	Net adjustments to / recoveries on intangible assets	-325	-283
- 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)	9	9
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	8	13
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	21	14
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-1	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	1	8
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	32	16
Operating costs		**-4,470**	**-4,619**
Operating margin		**4,596**	**4,801**
Net adjustments to loans		**-923**	**-1,177**
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-11	-50
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-	6
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost – Loans	-967	-1,248
+ 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)	-11	16
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-	-
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	14	-
Caption 140	Profits/losses from changes in contracts without derecognition	-2	-5
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	39	68
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	15	36
Other net provisions and net impairment losses on other assets		**-67**	**-86**
+ 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)	-12	-1
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	-	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-15	-3
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-4	-8
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	-41	-98
+ 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)	9	-
- Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	3	6
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	1	3
- Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	2	-
- 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)	2	14
- 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)	1	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-1	-8
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-1
+ 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		30.06.2019	30.06.2018 Restated
Other income (expenses)		**7**	**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	5
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	-	11
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - (Effect of purchase price allocation)	-	-9
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	27	20
Caption 280	Profits (Losses) on disposal of investments	1	-
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial companies 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)	-9	-9
+ Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	1
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-24	-18
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	3	-
- Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	-
Income (Loss) from discontinued operations		-	-
Caption 320	Income (Loss) after tax from discontinued operations	-	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-	-
Gross income (loss)		**3,613**	**3,539**
Taxes on income		**-985**	**-1,045**
Caption 300	Taxes on income from continuing operations	-832	-905
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-	-
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-19	-20
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-32	-28
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-102	-92
Charges (net of tax) for integration and exit incentives		**-52**	**-35**
- 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)	-11	-6
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-15	-8
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	-2	-14
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	-8	-13
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-21	-14
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	19	20
Effect of purchase price allocation (net of tax)		**-69**	**-70**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-52	-61
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-	6
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-15	-36
- 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)	-2	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-32	-16
+ 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)	32	28
Levies and other charges concerning the banking industry (net of tax)		**-242**	**-219**
+ 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)	8	1
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-352	-312
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	102	92
Impairment (net of tax) of goodwill and other intangible assets		**-**	**-**
Caption 270	Goodwill impairment	-	-
Minority interests		**1**	**9**
Caption 340	Minority interests	1	9
Net income (loss)		**2,266**	**2,179**

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.

Delta-Gamma-Vega (DGV VaR)
Parametric model for calculation of the VaR, able to assess both linear and non-linear risk factors.

Embedded derivatives
Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

Desk
It usually designates an operating unit dedicated to a particular activity.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to 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
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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Financial calendar

Approval of the Interim Statement as at 30 September 2019	5 November 2019

Prepress and printing: Agema® S.p.A.

MIX
Paper from
responsible sources
FSC® C003526
FSC
www.fsc.org

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.