INTESA SANPAOLO

Interim Statement as at 31 March 2020

This is an English translation of the original Italian document "Resoconto Intermedio al 31 marzo 2020". 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.

This document includes financial projections, some of which reflect management's estimates regarding the projected combined operations of Intesa Sanpaolo and UBI Banca following the completion of the proposed transaction. These projections were prepared based on Intesa Sanpaolo management forecasts, taking into account publicly available information regarding UBI Banca's operations. These projections are presented for illustrative purposes only, are based on various adjustments, assumptions and preliminary estimates, and may not be an indication of Intesa Sanpaolo's financial condition or results of operations following the completion of the proposed transaction.

Moreover, the impact of COVID-19 on the economy as a whole and Intesa Sanpaolo's and UBI's results of operations and overall financial performance remains uncertain in relation to the possible evolutions of aftermath of the pandemic. The financial projections in this press release have not been adjusted for the potential impact of the COVID-19 pandemic on UBI's business, financial results and condition.

This document is not part of the public exchange offer over UBI Banca shares and does not constitute an offer to buy or exchange UBI Banca's shares or subscribe/buy Intesa Sanpaolo's shares. Before the beginning of the tender offer period, as required by the applicable regulations, Intesa Sanpaolo will publish an offer document including a description of terms and conditions of the offer, as well as, inter alia, of the methods to adhere to the offer. The afore-mentioned publication will be disclosed by a specific press release.

Interim Statement as at 31 March 2020

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

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

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	**Company**	**Branches**
1,005	Fideuram	96
	Banca IMI	1
	Banca 5	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	**Company**	**Branches**
874	Fideuram	56

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	**Company**	**Branches**
718	Fideuram	40
	Banca IMI	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	**Company**	**Branches**
630	Fideuram	26

ISLANDS

INTESA SANPAOLO	Subsidiaries	
Branches	**Company**	**Branches**
223	Fideuram	10

Figures as at 31 March 2020

Product Companies

INTESA SANPAOLO VITA — FIDEURAM VITA — INTESA SANPAOLO ASSICURA

Bancassurance and Pension Funds

EURIZON ASSET MANAGEMENT

Asset Management

SIREF FIDUCIARIA

Fiduciary Services

The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

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

AMERICA

Direct Branches	Representative Offices
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

Representative Offices
Sydney

ASIA

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

EUROPE

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

Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	35
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	48
Croatia	Privredna Banka Zagreb	181
Czech Republic	VUB Banka	1
Hungary	CIB Bank	64
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram Bank Luxembourg	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania	Intesa Sanpaolo Bank Romania	32
Russian Federation	Banca Intesa	28
Serbia	Banca Intesa Beograd	155
Slovakia	VUB Banka	192
Slovenia	Intesa Sanpaolo Bank	49
Switzerland	Intesa Sanpaolo Private Bank (Suisse) Morval	2
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex Bank	45
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Bank (Suisse) Morval	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	176

Figures as at 31 March 2020

(1) European Regulatory & Public Affairs

Product Companies

PBZ CARD

E-money and Payment Systems

CIB LEASING
INTESA LEASING Beograd
PBZ LEASING
VÚB LEASING

Leasing

EURIZON ASSET MANAGEMENT
FIDEURAM ASSET MANAGEMENT IRELAND
INTESA INVEST Beograd
INTESA SANPAOLO LIFE
VÚB ASSET MANAGEMENT
意才 YI TSAI

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 Roberto FRANCHINI [(1)] [(*)] Anna GATTI Rossella LOCATELLI Maria MAZZARELLA Fabrizio MOSCA [(*)] Milena Teresa MOTTA [(*)] Luciano NEBBIA Bruno PICCA Alberto Maria PISANI [(**)] Livia POMODORO Andrea SIRONI [(2)] 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
(1) Was appointed as a Director at the Shareholders' Meeting of 27 April 2020 replacing Corrado Gatti who had ceased to hold office
(2) Was appointed as a Director at the Shareholders' Meeting of 27 April 2020, following co-option by the Board of Directors on 2 December 2019

Introduction

Legislative Decree 25 of 15 February 2016, which transposed the Transparency Directive (2013/50/EU) into the Italian legislation, eliminated the obligation to publish interim statements and gave Consob the option of establishing any additional disclosure obligations with respect to the annual and half-yearly reports. By Resolution 19770 dated 26 October 2016, Consob, pursuant to regulatory delegation provided for in said Decree, approved the changes to the Issuers' Regulation on periodic additional financial disclosure, which have applied since 2 January 2017.
Under these regulations, Italian listed companies have the right to select whether or not to publish periodic additional financial disclosure.
When it announced its 2020 financial calendar to the market, Intesa Sanpaolo confirmed that, pursuant to Art. 65-Bis and Art. 82-ter of the Issuers' Regulation, it intends to continue publishing financial information – on a voluntary basis – as at 31 March and 30 September of each financial year, in addition to the annual report and half-yearly reports. This information consists of interim statements approved by the Board of Directors.
As illustrated in detail in the chapter "Criteria for the preparation of the Interim Statement", the Interim Statement as at 31 March 2020" has been prepared, in consolidated form, in compliance with the recognition and measurement criteria required by the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.
The Interim Statement contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the Report on operations. It is also complemented by information on significant events which occurred during the period.
In support of the comments on the results, the Interim Statement also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments. The Interim Statement also contains other financial information taken from or attributable to the financial statements, as well as other information – for example, figures on quarterly trends, and other alternative performance measures – not taken from or directly attributable to the financial statements.
In this regard, see the chapter Alternative Performance Measures in the Report on operations accompanying the 2019 consolidated financial statements for a detailed description. In the situation resulting from the COVID-19 epidemic, no new measures have been added to this Interim Statement, nor have any changes been made to the measures normally used.
The consolidated financial statements are subject to a limited review by the Independent Auditors KPMG for the sole purpose of issuing the certification required by Art. 26 (2) of European Union Regulation no. 575/2013 and European Central Bank Decision no. 2015/656.

Overview of the first quarter 2020

Income statement figures and Alternative Performance Measures

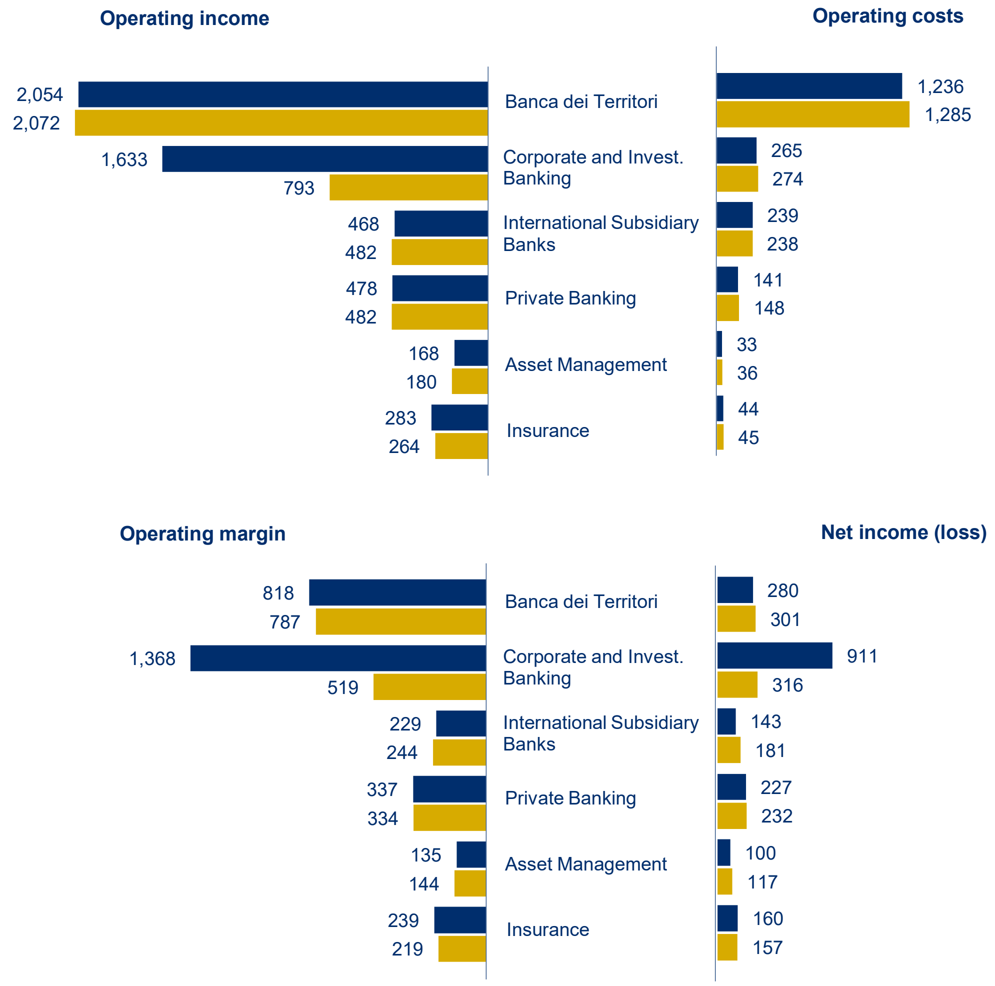
Consolidated income statement figures (millions of euro)			Changes	
	31.03.2020	31.03.2019	amount	%
Net interest income	1,747	1,756	-9	-0.5
Net fee and commission income	1,844	1,865	-21	-1.1
Income from insurance business	312	291	21	7.2
Profits (Losses) on financial assets and liabilities designated at fair value	994	458	536	
Operating income	4,882	4,369	513	11.7
Operating costs	-2,169	-2,230	-61	-2.7
Operating margin	2,713	2,139	574	26.8
Net adjustments to loans	-403	-369	34	9.2
Net income (loss)	1,151	1,050	101	9.6

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

31.03.2020

31.03.2019

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)	31.03.2020	31.12.2019	Changes amount	Changes %
Financial assets	156,649	146,570	10,079	6.9
Financial assets pertaining to insurance companies measured pursuant to IAS 39	159,223	168,814	-9,591	-5.7
Loans to customers	404,900	395,229	9,671	2.4
Total assets	847,901	816,102	31,799	3.9
Direct deposits from banking business	433,618	425,512	8,106	1.9
Direct deposits from insurance business and technical reserves	156,454	165,838	-9,384	-5.7
Indirect deposits:	485,168	534,349	-49,181	-9.2
of which: Assets under management	*333,470*	*357,998*	*-24,528*	*-6.9*
Shareholders' equity	56,516	55,968	548	1.0

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

	Loans to customers 31.03.2020	Loans to customers 31.12.2019	Direct deposits from banking business 31.03.2020	Direct deposits from banking business 31.12.2019
Banca dei Territori	195,422	194,358	202,535	199,256
Corporate and Invest. Banking	144,314	131,884	88,637	86,850
International Subsidiary Banks	34,460	34,038	42,929	43,420
Private Banking	9,005	9,329	39,871	39,537
Asset Management	224	435	8	10
Insurance	-	-	-	-

(*) Excluding Corporate Centre

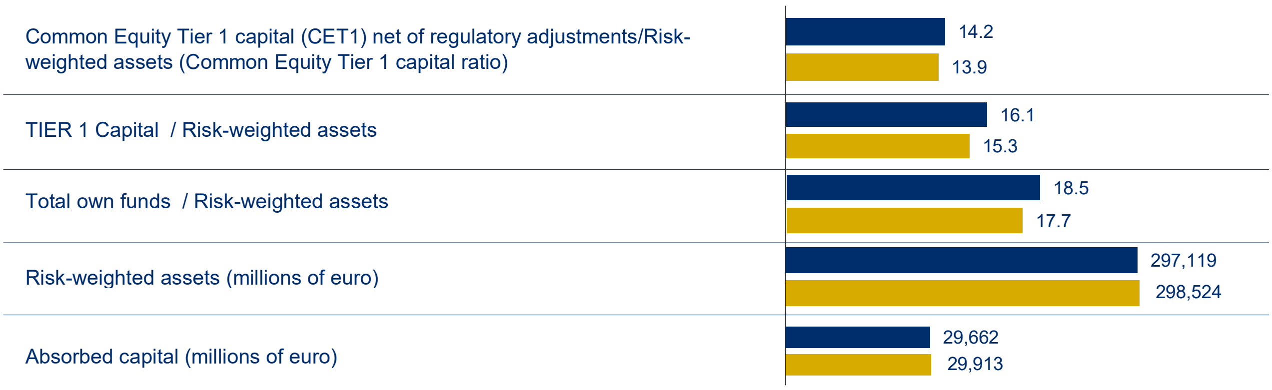
Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

31.03.2020

31.12.2019

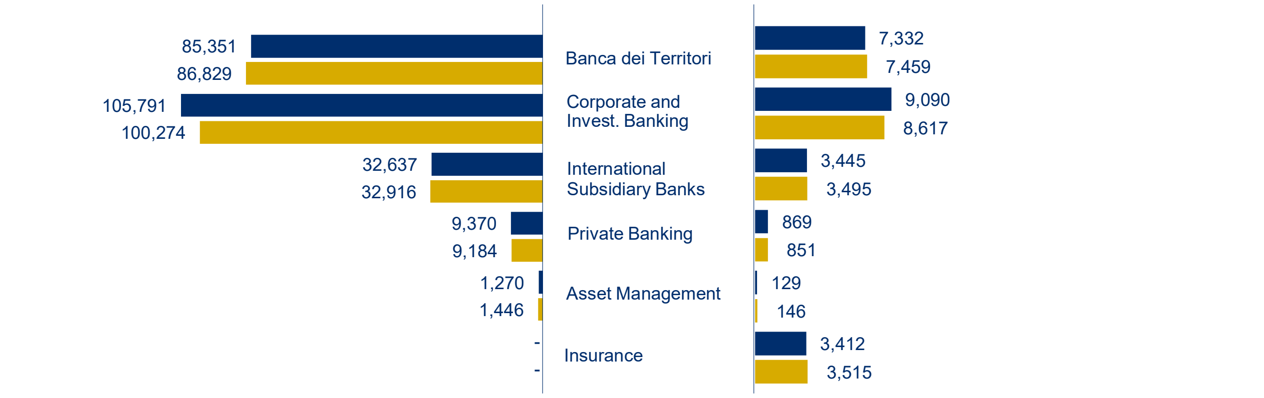
Alternative Performance Measures and other measures

Consolidated capital ratios (%)



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

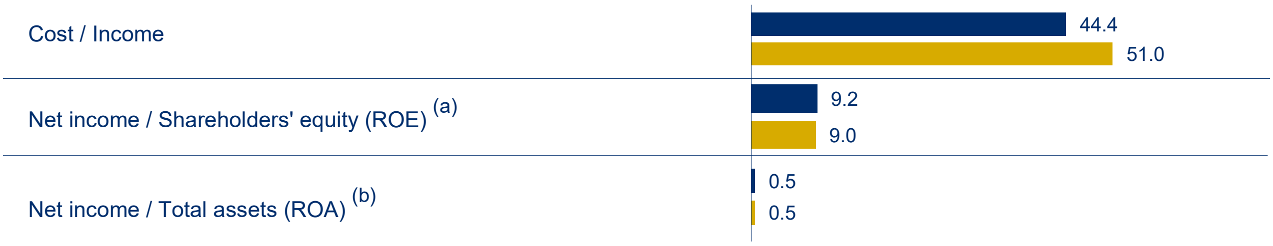
Absorbed capital by business area (*)
(millions of euro)



(*) 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 (%)

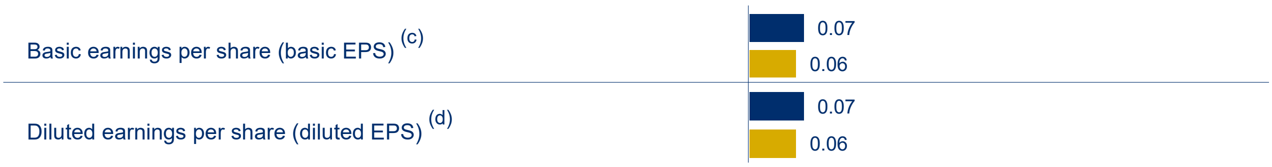


Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(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.

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.

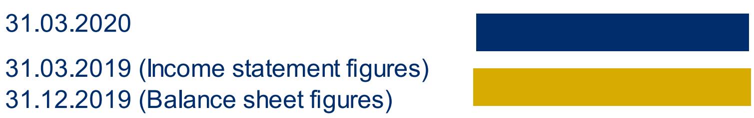
(d) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

Operating structure	31.03.2020	31.12.2019	Changes amount
Number of employees (e)	**88,130**	**89,102**	**-972**
Italy	64,895	65,705	-810
Abroad	23,235	23,397	-162
Number of financial advisors	**4,970**	**4,972**	**-2**
Number of branches (f)	**4,727**	**4,799**	**-72**
Italy	3,681	3,752	-71
Abroad	1,046	1,047	-1

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.



Executive summary

The situation generated by the COVID-19 epidemic

Economic trends in the first quarter of 2020

The COVID-19 pandemic is disrupting the world economy. In January and February the effects were concentrated in China, impacting the rest of the world mainly through trade. However, between February and March, the epidemic spread to Europe and the United States. All the countries affected had to adopt containment measures based on social distancing, the closure of many businesses, and restrictions on travel and tourism. Countries whose health systems were least equipped to deal with the emergency had to impose longer suspensions of production activities. Even where less restrictive measures have been adopted, economic activity has been well below the norm, leading to an almost total standstill for air transport and tourism. In Europe the impact was felt from the second half of February, first in Italy and then in the rest of the continent. The highly uncertain outlook has had a violent impact on the financial markets with sharp falls in share prices and increased credit risk premiums on sovereign and corporate issuers. Money market interest rates have also been under pressure, despite the abundant excess liquidity.
The prospect, in the second quarter, of potential business closures and an increase in unemployment led governments to adopt immediate support measures, with a considerable impact on government budgets: deferral of tax payments, provision of guarantees for bank credit, subsidies to households, and strengthening of social security mechanisms. The European Central Bank has supported the fiscal effort by implementing an extraordinary expansion of the securities purchasing programmes, relaxing conditions on long-term refinancing programmes, extending the range of assets eligible as collateral, and allowing a temporary easing of supervisory rules. All measures that were introduced to prevent a pro-cyclical rationing of bank credit. The support measures and the nature of the shock – severe but temporary – suggest a rebound in GDP in the second half of 2020, with a significant recovery in 2021, but the timing of the return to pre-crisis levels of economic activity is highly uncertain.
In the Italian banking market, the growth in loans to households, both in the form of mortgages and consumer credit, continued in the first two months of the year. Specifically, monthly gross flows of house purchase loans posted even stronger double-digit growth, following the recovery towards the end of 2019. However, loans to businesses continued to decline, although less so than at the end of 2019 due to the improvement in loans to services. Banks have continued the progress made in reducing asset risks, with a further decrease in the stock of bad loans, and are able to face the crisis in conditions of greater capital strength than in the past. Customer funding continued its strong growth, driven by the performance of deposits, particularly in the on-demand segment. Interest rates on loans and overall deposits remained at an all-time low, while the overall cost of the stock of customer funding recorded a further slight reduction.
Against this backdrop, the spread of the COVID-19 epidemic represents a major disruption, especially in the credit market. The Italian government has introduced measures designed to provide financial support to businesses and households, by allowing moratoriums and strengthening the public credit guarantee system, in order to ease the liquidity strains caused by the emergency and facilitate new credit. These measures are also designed to mitigate potential impacts on the credit quality of the banks. Small and medium-sized enterprises, businesses and professional firms are likely to make extensive use of bank credit, and banks will be called upon to provide large-scale support to the production system.
In the asset management industry, net inflows to mutual funds and portfolio management schemes have weakened. As the pandemic has spread, the sharp rise in financial market volatility has led to an acceleration of outflows from higher risk profile funds, although the impacts for the other segments have been less severe. Collected premiums for life insurance have held up well overall under the circumstances.

Intesa Sanpaolo’s business continuity

From the very beginning of the dramatic health and social emergency that has swept Italy, Intesa Sanpaolo has been fully committed to tackling the situation effectively, whilst ensuring the continuity of its processes and services. In view of the worsening risk scenario and to strengthen its preventive countermeasures, Intesa Sanpaolo immediately set up its own Emergency Unit to identify specific mitigation strategies and related lines of action, as well as ensuring ongoing monitoring of the situation.
The Emergency Unit meets daily to assess the situation and make the necessary decisions regarding all the Group structures and companies impacted by the spread of the coronavirus throughout Italy. To speed up escalation procedures and improve the effectiveness of the decision-making process, the Bank has set up two operational task forces, with representatives from all head office structures and business divisions, focused on two specific areas: security and communications and business continuity.

Security and communications
This task force has been set up to take all necessary actions to ensure the protection of personnel, customers and suppliers, as well as communications to internal and external stakeholders.
It collects information on the development of the situation, both through external sources, which are used to produce forecast scenarios of the evolution of the epidemic, and from internal sources (attendance levels, travel trends, etc.).
The safety of personnel is pursued not only by providing personal protective equipment where necessary, but also through preventative actions such as limiting travel, encouraging flexible working, and distancing measures. Inside premises, offices and branches open to the public, the minimum distance of one metre must always be observed and all possibilities for gatherings are avoided. All premises are also cleaned frequently, in accordance with the instructions issued by the Ministry of Health.
Employees who test positive for the virus are continuously monitored during the course of the illness, providing guidance on the procedures to be adopted, also with the assistance of the Internal Occupational Health Function. Personnel who have been in close contact with positive cases must stop working at the company offices; access is then prohibited to the premises concerned and they are disinfected before they can be used again.
In terms of internal communications, a special section has been set up in the company intranet, in addition to sending text messages and e-mails to all staff providing updates and operational instructions, particularly at critical times.
Regular communications have been sent to suppliers, customers (on the showcase website, at branches, etc.) and the media, and the authorities, institutions and trade associations have been continuously updated.
In the face of growing threats of online fraud exploiting the current emergency situation, we have produced customer-specific communications with practical advice on how to avoid falling victim to this type of attack.

Business continuity
The main solutions adopted to deal with the emergency, mitigate the risk, and ensure continuity of service, related to remote working, measures adopted at the branches, process digitisation, and actions taken on the systemic processes.
Remote working is considered the most effective solution to ensure the health of staff. This method of working was already well-established within the Group and in response to the emergency it was extended to almost all the staff in the head office functions. The online branch staff and part of the “physical” branch staff have also been set up so they can do their work from home. Measures have also been implemented to make remote working more secure by using instruments to increase the level of protection and improve the security of access to the corporate network.
With regard to the Branch network, a uniform approach has been identified at national level for opening hours and selective closures. Premises must be accessed in accordance with precise distancing rules, with an equal number of employees and customers. Customers can only access premises by appointment and for specific transactions that cannot be carried out via ATM, remote banking, or app.
As a result, changes have been made in the process digitisation that enable the remote provision of internal operations and services to customers, including the renegotiation of mortgages to private individuals, suspension of mortgage and loan payments, and divestments for customers that do not have MyKey.
Lastly, for the systemic processes, the Group’s Business Continuity Plans (BCPs) were used as the starting point to analyse all the critical activities and emergency solutions relating to the unavailability of premises and personnel, giving priority to the structures overseeing the processes (Treasury, Operations, Information Systems and Cybersecurity, and Business Continuity Management) and the entities/structures operating in the markets (Banca IMI, Eurizon, Fideuram, and Insurance).
The main secondary emergency sites have been set up, which can host the operation of the systemic structures and the structures that have access to the markets, where necessary.
The staff of the units that carry out critical activities, of the structures responsible for systemic processes, and of the structures that operate on the markets, have been enabled and set up to work from home. Where physical presence is required, the staff have been divided into groups that go the offices in turns, without ever meeting each other. This solution reduces the risk of contagion and consequently ensures the availability of critical staff.
Lastly, an assessment was conducted of the ability of critical suppliers to cope with the emergency, which confirmed they met the Group’s requirements.

Actions taken in relation to the Group’s stakeholders

Actions in support of households and businesses
Intesa Sanpaolo is fully aware of its responsibility as a major bank in a situation of long, profound emergency, which is in many ways unknown. Accordingly, from the outset, the Bank has taken numerous actions to support the efforts of institutions and society to combat the COVID-19 pandemic.
In March, Intesa Sanpaolo made 100 million euro available to the Department of Civil Protection and the Extraordinary Commissioner with the signing of a Protocol agreement, taken from existing funds earmarked for charitable actions, to support activities aimed at containing and overcoming the spread of the Covid-19 virus. A few days after having signed the Protocol agreement, the Intesa Sanpaolo Group agreed a series of measures to combat the health emergency with the Extraordinary Commissioner, Domenico Arcuri, and with Angelo Borrelli on behalf of the Department of Civil Protection. Under this agreement, donations of 88.5 million euro were managed through the Department of Civil Protection, and 11.5 million euro of donations were allocated directly by Intesa Sanpaolo to specific beneficiaries (ASST Papa Giovanni XXIII of Bergamo and the Veneto Region). As a result, an addendum to the Protocol agreement was signed to reduce the contribution to the Department of Civil Protection and the Extraordinary Commissioner, from the original 100 million euro to the final amount of 88.5 million euro, which has been fully disbursed in accordance with the procedures and purposes set out in the Protocol agreement.
In the wake of an epidemic that has had a severe impact on the Italian population and in expression of solidarity for all the families that have lost their loved ones, Intesa Sanpaolo strived to ensure effectiveness and timeliness in identifying the health facilities that would benefit from the medical resources and supplies so urgently needed in the emergency.

Numerous actions have been carried out at national level. Specifically, 53.5 million euro have been allocated to the purchase of medical equipment requested by the Extraordinary Commissioner, in agreement with the Department of Civil Protection, to be assigned to health facilities and public entities throughout Italy based on the demands of the health emergency. In addition, 46.5 million euro have been allocated to specific health facilities for projects related to the Covid-19 emergency and for the reimbursement of purchases of equipment, diagnostic tools and other medical material already made by the health facilities. In terms of geographic allocation, these specific actions were distributed as follows: 68% to Northern Italy, 15% to the Centre and 17% to the South.
The following facilities benefited from the actions implemented by Intesa Sanpaolo: Ospedale San Raffaele (Milan); Humanitas (facilities located in Rozzano - Milan, Bergamo and Castellanza - Varese); Grande Ospedale Metropolitano Niguarda (Milan); ULSS (Local care and social services facility) no. 9 Scaligera (Verona); Istituto di Candiolo IRCCS (Turin); Campus Bio-Medico of the University of Rome; Azienda Ospedaliera Dei Colli (Naples); ASST degli Spedali Civili in Brescia and Policlinico S. Orsola-Malpighi (Bologna), Hospitals in the Sicily Region (Agrigento and Sciacca); ASL (local health authority) Torino 3 and ASL Torino 4 (Turin); ASL Teramo; Ospedale San Gerardo (Monza); ASST Papa Giovanni XXIII (Bergamo); and the Veneto Region (medical equipment and materials provided to hospitals in the region for Covid-19 wards).
These actions were accompanied by a contribution of 350,000 euro for the construction of the ANA (National Association of Alpine Regiments) field hospital at the Bergamo Exhibition Centre and 50,000 euro for the “Abitare la Cura” fundraising campaign launched by Eco di Bergamo, Caritas Diocesana, and Confindustria Bergamo.
Intesa Sanpaolo provided its services as the lead bank in support of the commercial operations, offering its advice and knowledge of the international network to the Extraordinary Commissioner to help him perform his crucial role in the procurement of the medical materials needed to manage the current emergency.
Intesa Sanpaolo, in collaboration with Caritas and the Calzedonia Group, also delivered eleven thousand undergarments to several hospitals in Lombardy and Veneto to be distributed urgently and free of charge to hospitalised Covid-19 patients who were unable to receive these items from their families because they were in quarantine. Some of the garments were purchased by Intesa Sanpaolo and some were donated by the Calzedonia Group. The hospitals involved were: Papa Giovanni XXIII in Bergamo, Spedali Civili in Brescia, Hospitals of Cremona, Oglio Po and Nuovo Robbiani in Soresina in the province of Cremona, and Azienda Ospedale - Università di Padova in Padua.

In view of the difficult situation, the Managing Director and CEO, Carlo Messina, gave up 1 million euro of the bonus that he would have been entitled to under the 2019 incentive system, to allow Intesa Sanpaolo to make donations in support of specific health initiatives. The 21 top managers who report directly to him also gave up part of their remuneration to contribute to similar donations, totalling around 5 million euro of their respective bonuses that would have been due to them under the 2019 incentive scheme. The Board of Directors, which appreciated and welcomed the decision made by the management, in turn gave up a part of their remuneration to contribute to further donations. In addition, when the variable portion of remuneration is awarded, all Group employees will be able to contribute with donations in support of specific health initiatives through a special platform.
Intesa Sanpaolo also launched a fundraising campaign on its digital platform www.forfunding.it, targeting private individuals and businesses, which raised 3.4 million euro. Out of this amount, following the launch of a crowdfunding partnership with the Gucci group, the donation is being finalised of over 1 million euro to the research project of the Ospedale San Matteo in Pavia, the leader of an Experimental Medical Protocol for the use of hyperimmune plasma for the treatment of Covid-19 patients, again in agreement with the Department of Civil Protection.

In terms of its own operations, Intesa Sanpaolo has implemented a series of extraordinary measures to support the Italian economy and its businesses and households. First of all:
- 5 billion euro of new loans for businesses throughout the country to support working capital, provided through additional credit lines over and above the existing facilities;
- 10 billion of liquidity for Intesa Sanpaolo customers, through credit lines already approved to them and now made available for more extensive and flexible purposes, such as managing urgent payments;
- the suspension for 3 months of payments on outstanding medium/long-term loans, solely for the principal amount or for the entire payment due, which can be extended by 3 to 6 months depending on the duration of the emergency. The suspension for the loans has also been extended to households throughout the country.

As a result of the measures approved by the government, the amount of resources in terms of credit made available to the country has been increased to 50 billion euro.
To help ensure continuity of production, in the face of the slowdown in domestic and foreign demand caused by the current crisis, Intesa Sanpaolo has set aside:
- a plafond of 2 billion euro to support companies and professionals associated with Confcommercio (Italian federation of commerce and tourism) to enable the management of urgent payments and immediate liquidity needs. An agreement has also been made with special conditions for Confcommercio members, which includes the refund of fees on micro-payments (less than 10 euro) accepted through physical Intesa Sanpaolo POS terminals.
- a plafond of 2 billion euro for companies operating in the tourism sector to support liquidity and investment. The possibility of suspending outstanding loan instalments for up to two years has also been increased.

Furthermore, the Intesa Sanpaolo Group – through RBM Assicurazione Salute’s experience in the health sector – has made its new insurance solution available to members of the boards of directors, owners and employees of companies, to provide protection and greater peace of mind if they contract the virus. Intesa Sanpaolo Assicura has also launched initiatives in favour of its policyholders by extending its services and insurance cover to all of them free of charge. Policyholders – who are positive for COVID-19 and who will contract the virus – will have daily hospitalisation allowances not only in the event of hospitalisation, but also during isolation at home (quarantine), without excesses and deductibles.
Intesa Sanpaolo was the first Italian bank to sign the collaboration protocol with SACE to provide financial support to businesses damaged by the COVID-19 emergency. Thanks to this agreement, Intesa Sanpaolo, after having increased the amount of credit resources available to the country to 50 billion euro, is offering all the possible solutions envisaged by the Liquidity Decree, in order to also provide the necessary support to large companies that were not originally covered by any support measures. This is a necessary step to help the production sectors and the supply chain made up of SMEs. Thanks to

the work coordinated by the Italian Banking Association, the Group has identified the most suitable solutions to efficiently manage operations through its relationship managers.

Lastly, following the approval by the Bank's Shareholders' Meeting on 27 April, 1 million euro, equal to 16% of the total of 14 million euro that can be disbursed from the Intesa Sanpaolo Allowance for charitable, social and cultural contributions, under the chairmanship of the Board of Directors, will be allocated to COVID-19 medical research projects to combat the coronavirus emergency. Recognised Italian universities and research bodies can apply for projects according to the standard procedures for accessing the Fund's resources. Projects are identified through a selection process conducted by a panel of experts, with precise and transparent criteria applied at each stage.
The management of the Fund – as envisaged by Intesa Sanpaolo's Articles of Association – is the responsibility of the Bank's Chairman and prioritises initiatives that encourage social inclusion, projects to combat social hardship and poverty, projects to prevent and treat diseases, support disability and international cooperation projects. In 2019, the Fund also supported initiatives to attain the social goals of the Business Plan, providing a total of 1.9 million euro for initiatives against food poverty with 1.2 million meals a year equal to approximately 34% of the target. The projects supported include numerous international initiatives, above all for countries where the Group operates, such as Albania, Ukraine, Egypt, Libya, Romania and Moldova.

Further enhancement of capital strength
On 31 March 2020, the Board of Directors of Intesa Sanpaolo, in compliance with the European Central Bank recommendation of 27 March 2020 concerning the dividend policy in the aftermath of the COVID-19 epidemic, decided to suspend the proposal regarding the cash distribution to shareholders of around 3.4 billion euro, equal to 19.2 euro cents per share, already on the agenda of the Ordinary Shareholders' Meeting called for 27 April 2020. The Board also passed a resolution to propose to that Ordinary Shareholders' Meeting the allocation to reserves of net income for the financial year 2019, after the allocation of 12.5 million euro to the Allowance for charitable, social and cultural contributions.
The proposal, which was approved by the Shareholders' Meeting, translated into a further strengthening of the Intesa Sanpaolo Group's solid capital position: as at 31 March 2020, the Common Equity Tier 1 ratio – calculated taking into account the transitional treatment adopted to mitigate the impact of IFRS 9 – amounted to 14.2%.
The European Central Bank has specified that it will consider whether to extend its recommendation on dividend policy beyond 1 October 2020. Subject to the indications that will be given by the ECB in respect of this and the Group's solid capital position being preserved in respect of the evolution of the context following the COVID-19 epidemic, the Board of Directors of Intesa Sanpaolo intends to convene an Ordinary Shareholders' Meeting after 1 October to execute the distribution of part of the reserves to shareholders by the end of the financial year 2020, also in view of the support to the financial situation of households and to the contributions granted by the foundations, which is particularly necessary in the aftermath of the COVID-19 epidemic.
Also thanks to its solid capital position, the Intesa Sanpaolo Group has prioritised, and will continue to prioritise, the generation of benefits to all its stakeholders, from the support provided to the real and social economy to value creation and distribution to shareholders, confirming its role as a reference model in terms of sustainability and social responsibility.

The impacts of the epidemic on operations

Since the last week of February, the health emergency generated by the pandemic still underway has affected both the performance of the markets and business operations, with the latter penalised by the increasingly severe containment measures imposed, which have led to the suspension of many production activities in Italy and around the world.
As described in the pages above, Intesa Sanpaolo responded very promptly to the emergency, immediately implementing a wide range of initiatives aimed at protecting the health of the Group's people and customers, in order to ensure business continuity and counter the social and economic effects of COVID-19.
The main impacts on operations and the related effects on operating and investment costs, business operations, and the management of financial investments are detailed below.
First of all, the actions to protect health, which, together with the business continuity initiatives, have had an impact on operating costs, involved three main areas: support for prevention, extension of remote working, and support for local communities.
In the area of workplace risk prevention, we arranged the urgent acquisition of personal protective equipment, protective screens, and disinfectant gel dispensers, as well as the extensive sanitisation of our premises. Alongside changes to our operational processes (customer management, access, site attendance), we put in place support measures (signage, acquisition of thermo-scanners, presence of stewards at the entrances, coordination of site attendance, extraordinary security measures). In terms of employee welfare, we gave additional leave to staff involved in operating the branch network in the most acute phases of the emergency.
With regard to remote working, we took the following lines of action:
- acquisition and distribution of devices to enable the implementation of remote working for groups of employees not already set up (personal computers, smartphones, data SIM cards, and monitors), both in the sales network and at the headquarters;
- interventions on the operational and business processes to enable them to be carried out remotely;
- further expansion of the corporate network to enable simultaneous access for an increasing number of users;
- enhancement of the remote customer contact channels (call centres and digital apps);
- strengthening of IT security in terms of anti-fraud;
- specific training on the effective and efficient remote use of IT resources.

Lastly, with regard to support to local communities, we financed emergency interventions in terms of medical equipment and materials given to selected health facilities in the areas most affected by the epidemic. We also sponsored various initiatives in those areas aimed at managing the social impacts of the crisis.

In addition to the remote work by more than 35,000 people, business continuity was ensured by the operations of around 95% of the branches, which were kept open with modified opening hours and customer access by reservation, by the effective multi-channel banking model (online branches, internet banking, apps and ATMs), and by the remote assistance and advisory service provided by around 20,000 relationship managers.
In particular, the following have been set up or are in the process of being implemented:

- contingency processes for the remote management of services that have not yet been digitised (e.g. remote management of retail mortgage applications/processing/approval; remote solution for corporate loans - ST, MLT, leasing, factoring and OTC Derivatives; remote management of Successions; etc.);
- remote signature for Corporate/Non-Inbiz Business customers and prospective customers;
- development of the Corporate/Business (Inbiz) Portal for the exchange of contractual documentation by digital signature (similar to the one used for private customers with the "Remote Offering");
- release of the Inbiz app, developed together with the Portal, for carrying out transaction orders (e.g. transfers and receipts);
- full traceability of transactions carried out by traders working remotely, to mitigate operational risks in the event of disputes.

The extension of remote working to managers and traders, through the adoption of specific contingency measures and the constant monitoring of order flows, has not hindered operations or given rise to inefficiencies. A specific internal regulation has been issued to set out the activities that can be carried out in remote working mode by each professional category, together with the precautions to be taken and the operational limitations. All suppliers have been contacted to obtain feedback on the business continuity measures adopted by them.

In terms of impacts on the business, the following have been observed:
On the credit side, Intesa Sanpaolo acted very quickly, implementing a series of extraordinary measures to support the Italian economy and its businesses and households. In fact, it was the first bank in Italy to suspend mortgage and loan instalments, before the specific regulations came into force, and to sign the collaboration protocol with SACE, thus providing immediate support to enterprises under the Liquidity Decree.
At the end of April, around 430,000 requests for mortgage and loan instalment suspensions had been received for a total value of around 38 billion euro, two-thirds of which for enterprises and around one-third for households, in addition to around 100,000 requests for loans backed by a state guarantee, for a total of around 3 billion euro. In addition, following the measures announced by the government, 50 billion euro in new credit has been made available to enterprises and professionals to protect jobs and manage payments during the emergency. To facilitate access to liquidity for businesses, the credit approval processes have also been revised, extending the authorisation powers for the less risky customer clusters.
In order to govern the overall impact of loan performance on the Group's risk and liquidity profile, Intesa Sanpaolo has also strengthened and increased the frequency of its monitoring of drawdowns and disbursements by sector, geographical area, and rating class, to ensure continuous oversight.
Savings levels have also inevitably been influenced by the special nature of the current crisis, which combines a supply-side shock, resulting from the reduction in production and investment, with a sharp increase in uncertainty, leading to a contraction in demand and an increase in precautionary savings.
The asset management business, in particular, has been affected both by the depreciation in the value of customers' financial assets and by the way relations with customers are managed, due to social distancing measures. The Group's response to mitigate these effects has been immediate and extensive. We immediately began an intensive communication campaign with customers to manage emotionally-driven responses that could lead to impulsive and detrimental behaviour, such as panic selling. We also continued the development of new investment solutions for retail, private and institutional customers, aimed at taking advantage of the opportunities offered by the current situation. Thanks in part to these measures, there were no particular pressures in terms of redemptions/repayments of managed products or strains relating to the level of liquidity of the assets. As a result, the fall in assets under management was mainly limited to the impacts resulting from the performance of the stock indices and interest rates.
With regard to the control of risk, we have focused in particular on the management of the liquidity of the open-ended UCIs, by setting up daily monitoring of the liquidity situation of each fund and the related redemption rates. The back-office processes, which manage the instruments that can be activated for liquidity management, have also been strengthened.
The management of proprietary financial investments was affected by the market dislocation generated by violent and sudden price movements of all the major assets, which led to an unprecedented increase in volatility and correlations between the different asset classes.
The breakdown of the correlations between risk factors has serious impacts on orderly risk management, making portfolio management less effective due to the loss of the benefits of diversification. This aspect is particularly significant for portfolios measured at fair value belonging to the Hold to Collect and Sell Business Model, for which the loan style characteristics of the instruments, the directionality of the positions, and the inability to use short positions, strongly limit the range of options that can be implemented in situations of severe market dislocation.
In order to preserve the functionality of its liquidity and investment portfolios, in terms of maintaining an adequate reserve of HQLA securities and an appropriate risk, diversification and earnings profile, the Group promptly initiated a revision of the portfolio allocation by reducing the concentration of less diversifying positions, through derisking and the purchase of more diversifying assets on the HTCS book.

The main accounting issues to be addressed in the context of the epidemic

The context

As noted above, the origins of the current economic and financial crisis linked to the spread of the COVID-19 pandemic are exclusively related to matters of public health and not to economic and financial factors, like the other crises in the past. At the beginning of 2020, the world economy was growing, albeit with a moderate slowdown, and financial intermediaries had been progressively strengthening their solidity. Bearing this in mind, the picture being painted by the forecasts of possible future macroeconomic scenarios is that the significant measures taken in most countries to contain the virus will enable a gradual return to the movement of people and the resumption of activities within the not too distant future. This means that there will be a considerable adverse effect on business, but we should see a reversal of the trend with a significant recovery in GDP in 2021. This view, which is shared by the Intesa Sanpaolo Group and which also depends on the effectiveness of the support measures put in place by governments to support the income of individuals and the liquidity of businesses, therefore indicates that the negative effects of the crisis should be contained in the medium- to long-term. Accordingly, it seems reasonable at this stage to assume that, although there may be a significant impact on the real economy in the short term, as soon as the health emergency is over, the measures to support the economy will be able to bring about a significant recovery in production.

This is also the prospective scenario envisaged by the various European Regulators, which have issued a series of measures (summarised below with regard to the accounting aspects) also aimed at providing intermediaries flexibility in managing this period of stress. In the first instance, this consists of providing their support to the measures adopted by national governments to deal with the systemic economic impact of the COVID-19 pandemic, in the form of legislative payment moratoria, in addition to similar initiatives introduced independently by the banks. In addition, credit institutions have been encouraged to also use their own judgement to avoid excessive pro-cyclical effects when applying IFRS 9. In light of the current uncertainty, the documents published by the authorities and standard setters suggest that existing approaches should not be applied mechanically when determining the Expected Credit Loss (ECL) according to IFRS 9 and remind banks of the need to use appropriate judgement. In particular, banks have been reminded that IFRS 9 also requires and allows the accounting approach to be modified to suit different circumstances.

Communications from authorities, standard setters, and governments

In the emergency scenario generated by the COVID-19 pandemic, the various European and national supervisory authorities issued a series of documents from the beginning of March aimed at providing the first elements of "methodological" support to banks that were continuing their various operations and would soon be preparing their quarterly reports. Subsequently, the International Accounting Standards Board (IASB), an independent body responsible for the implementation of the IAS/IFRS, also provided its comments on the most significant aspects related to the impact of COVID-19. The authorities in the USA, the UK and Canada also provided similar comments.

Given the limited time available, the documents issued by the various regulators and standard setters, in terms of the accounting aspects, concentrated on a few specific issues:

- guidance on the classification of loans, issued by the IASB, the European Central Bank (ECB), and the European Banking Authority (EBA), which provide guidelines for the treatment of moratoria;
- determination of the Expected Credit Loss (ECL) according to IFRS 9 from a forward-looking perspective, in particular the use of future macroeconomic scenarios (a subject addressed by the IASB, the EBA and the ESMA in general, and the ECB in more detail);
- transparency and market disclosure, on which guidance has been provided in the statements of the European Securities and Markets Authority (ESMA), the International Organization of Securities Commissions (IOSCO), and the Italian Securities and Exchange Commission (CONSOB).

A summary of the main documents is provided below.

On 27 March, the **IASB** published "*COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic*"[1]. This document does not amend IFRS 9, but suggests how it should be interpreted in light of the situation resulting from the pandemic. Specifically, it clarifies that "Entities should not continue to apply their existing ECL methodology mechanically" and recognises the difficulty of incorporating the effects of the pandemic and the related government support into the models. Therefore, banks facing this difficulty will need to consider post-model management adjustments. With regard to classification, the Board confirms that the extension of moratoria to customers should not automatically mean that all their contracts have undergone a Significant Increase in Credit Risk (SICR).

The various actions taken by the **ECB** include the guidance provided in its press release of 20 March "*ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus*", regarding the classification and measurement of loans. In its announcement, the ECB reassured banks that adoption of a moratorium should not be interpreted as an automatic trigger of unlikeliness to pay, because the payments have been legally postponed and, consequently, the counting of the days past due has been deactivated until the end of the moratorium. In addition, although it does not strictly come under its area of responsibility, the ECB, within its prudential remit, expresses its views on IFRS 9 forward-looking assessments, recommending that banks avoid excessively procyclical assumptions in their models to determine provisions. In determining ECLs, the ECB calls on institutions to "give a greater weight to long-term stable outlook evidenced by past experience when estimating provisions for expected credit losses".

[1] The IASB has also expressed its opinion on the deferral of lease payments, dealt with in specific documents relating to IFRS 16. This issue is significant for lessees, whereas for lessors (like Intesa Sanpaolo) this issue is mainly addressed in IFRS 9.

The ECB also sent a letter[2] to supervised banks to provide additional guidance and references on the inclusion of forward-looking information in determining ECLs under IFRS 9 in the current context of the COVID-19 pandemic. The letter refers to the recommendations made by the ECB to intermediaries, namely to avoid the use of excessively procyclical assumptions, given the extreme uncertainty of the context and in light of the unavailability of reasonable and supportable forward-looking information: "*In order to mitigate volatility in institutions' regulatory capital and financial statements stemming from IFRS 9 accounting practices in the current context of extraordinary uncertainty we recommend that institutions i) opt to apply the transitional IFRS 9 provisions foreseen in the CRR, and ii) avoid excessively procyclical assumptions in their IFRS 9 models to determine their provisions*". The ECB also stresses the fundamental importance of governance in relation to the adjustments, overlays and model updates, considered necessary in the current situation. This letter is accompanied by an Annex, which provides guidance on the following three aspects:

- *Collective assessment of the SICR*
  The ECB expects significant institutions "*to consider whether a top-down approach to stage transfers can be taken,*" using the collective assessment, "*and in the context of that approach, recognise lifetime expected credit losses on a portion of the financial assets for which credit risk is deemed to have increased significantly without the need to identify which individual financial instruments have suffered a SICR*".
- *Use of long-term macroeconomic forecasts*
  The ECB recognises the current uncertainty in making macroeconomic forecasts and therefore calls on intermediaries to focus on long-term macroeconomic forecasts when determining IFRS 9 ECLs, using all the historical information covering at least one or more full economic cycles. In the ECB's opinion, the IFRS 9 provisions lead to the conclusion that, where there is no reliable evidence for specific forecasts, long-term macroeconomic outlooks provide the most relevant basis for estimation.
- *2020 and 2021 macroeconomic forecasts*
  The ECB provides recommendations on how the forecasts for the March quarterly estimates should be made, indicating that the macroeconomic projections produced by its staff on 12 March 2020 (based on the February situation) should be used as anchor points. These anchor points may be subject to further critical assessment in light of the situation arising since March (lockdowns and announcements of substantive public support measures). Given the current high level of uncertainty, the ECB has stated that it would not object to any judgement that this rebound might occur within 2020. Specifically: "*When using specific period forecasts for estimates as of the first quarter of 2020, we consider that significant institutions should:*
  (i) *use the March 2020 ECB staff macroeconomic projections for the euro area as anchor points;*
  (ii) *exercise an informed judgement to update those projections to reflect both the lockdowns and the severe social distancing restrictions imposed on the various economies as well as the substantive public support measures announced and implemented across countries;*
  (iii) *exercise an informed judgement about a potential rebound of the economy to the long-term trend, taking into account that the ECB would not object to any judgement that this rebound might occur within 2020 given the current level of uncertainty*".

In a press release published on 25 March[3], the **EBA** addressed the matter of the management of loans subject to moratorium in greater detail in relation to (i) identification of default, (ii) forbearance measures, and (iii) IFRS 9 staging. In this regard, the EBA specified that:

- adoption of a moratorium – both legislative and granted by the bank – is not a trigger for default and stops the counting of the days past-due for the identification of default;
- with regard to considering moratoria as forbearance measures, the EBA is of the view that the positions concerned cannot be considered as forborne, because they are aimed at addressing systemic risks and alleviating potential future risks that may occur in the wider EU economy;
- on the possible transfer to Stage 2 of positions subject to a moratorium, the EBA clarifies that the application of a public or private moratorium alone should not be considered as a trigger for the identification of a significant increase in credit risk, and therefore they should not be automatically classified as Stage 2.

The EBA document also notes the complexity of the situation with respect to forward-looking estimates: "*Institutions should consider the current exceptional circumstances when determining which information can be considered reasonable and supportable information as foreseen under IFRS 9, also taking into account the expected nature of the shock and the scarcity of available and reliable information. Institutions should carefully assess the extent to which, amongst other facts, the high-degree of uncertainty and any sudden changes in the short-term economic outlook are expected to result in impacts over the expected life of the financial instrument".*

The **ESMA** has also commented[4] on the accounting implications of the COVID-19 epidemic for the calculation of ECLs under IFRS 9. Specifically, the ESMA notes that measures taken in the context of the COVID-19 epidemic, which allow for suspension or extension of payments, should not automatically lead to the identification of a Significant Increase in Credit Risk (SICR) with a Stage 2 classification. With regard to the rebuttable presumption in IFRS 9 according to which defaults of more than 30 days provide evidence of a significant increase in credit risk, the ESMA states that this presumption can be rebutted if issuers, after having carefully considered the specific circumstances related to the COVID-19 epidemic and the associated economic and public support measures announced, are satisfied that those circumstances constitute sufficient justification to rebut this presumption. With regard to the forward-looking assessment under IFRS 9, the ESMA substantially confirms the comments made by the ECB and EBA already referred to above: "*In ESMA's view, when making forecasts, issuers should consider the nature of this economic shock (i.e. whether the COVID-19 effect is expected to be temporary) and*

[2] See ECB "Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic" of 1 April.

[3] See EBA "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures" of 25 March. These basic concepts were then further expanded and detailed in the subsequent EBA Communication "Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID-19 crisis" of 2 April.

[4] See ESMA "Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9" of 25 March.

the impact that the economic support and relief measures (including debt moratoria) will have on the credit risk over the expected life of the instruments, which include, depending on the instruments' maturities, longer-term estimates".
Lastly, the ESMA calls on companies to be fully transparent about the choices they make in their financial statements. The ESMA stresses the importance of publicly reporting the actual and potential impacts of COVID-19 in all relevant disclosures, in particular assumptions and judgements made on how and the extent to which the effects of COVID-19 and related supporting measures have been factored into the assessment of SICR and ECL, as well as the use of forward-looking information.

With regard to financial reporting, the ESMA also issued a recommendation[5] on 11 March, providing guidelines regarding the impact of COVID-19 with respect to the following:
- Market disclosure: the ESMA recommends that issuers should disclose as soon as possible relevant and significant information concerning the impact of COVID-19 on their fundamentals, prospects or financial situation, in accordance with the transparency obligations under the Market Abuse Regulation.
- Financial reporting: the ESMA recommends that companies should provide full transparency about the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment, on their business activities, financial situation and economic performance. This transparency should be provided in the annual financial report for 2019, if this has not already been approved by the board of directors, or in their next interim report (half-yearly or quarterly report, if prepared voluntarily by the company).

The recommendation clarifies that the assessment of the impacts of COVID-19 should contain quantitative information only "to the extent possible" and on the basis of the information available at the time of approval by the management body.

On the subject of market disclosure, the **IOSCO** and **CONSOB** have also noted the importance of clear, reliable and transparent disclosure that provides investors with useful information to enable them to assess the impact of the COVID-19 pandemic on the income statement and balance sheet aggregates. The IOSCO, in particular[6], recognises and endorses the guidance provided by the IASB on (i) the assessment of possible significant increases in credit risk and (ii) how to use forward-looking information from a long-term perspective.

Intesa Sanpaolo in the first quarter of 2020

The Intesa Sanpaolo Group's approach to the preparation of the Interim Statement as at 31 March 2020

Introduction
The concepts set forth by the European Regulators and the IASB – mainly concerning loans and aimed at avoiding penalising positions in temporary difficulty in the presence of economic support programmes that promise to be very extensive – have been used consistently by the Group, also for the measurement and presentation of other accounting items in the Interim Statement as at 31 March 2020.
However, it is important to note that, generally speaking, the aspects discussed below and the choices made by the Intesa Sanpaolo Group need to be viewed in conjunction with the major role that the Bank has played and will play in providing the necessary support to individuals and businesses, as well as the significant uncertainty and volatility in the figures for this period, as clearly highlighted by all the Authorities mentioned above. The new and exceptional characteristics of the current crisis, which are unprecedented in the post-war period, the continued uncertainty regarding the duration of the health emergency, which may generate economic and financial consequences for individuals and businesses, as well as the measures already devised and being devised by governments and the European Union, which, given their size and nature, are capable of mitigating the effects of the crisis, but which are still not yet all known and clearly defined, make it very difficult to apply accounting standards anchored to market values and forward-looking valuations.
Details are provided below of the aspects of the financial statements impacted by COVID-19, based on the framework outlined above.

Classification and measurement of loans in accordance with IFRS 9 in light of the measures issued by the various supervisory authorities following the emergence of the COVID-19 pandemic
With regard to classification, in line with the guidance provided by the various regulators that have commented on this aspect, existing performing positions that are subject to legislative moratorium measures or moratoria decided autonomously by the Group following the COVID-19 emergency are treated as follows:
- they are not normally classified as stage 2 (or considered as forborne according to the prudential rules). Solely for positions with companies with a high pre-existing risk at the outbreak of the pandemic, where the Bank decides to grant a moratorium, specific assessments are made to verify whether or not to consider the renegotiation as a forbearance measure, with consequent transfer to Stage 2;
- they are not classified as non-performing (Stage 3). In particular, performing loans that are subject to a moratorium are not classified as past due, because the moratorium deactivates the past due count for the loans that are subject to the moratorium. Moreover, the adoption of a moratorium is not considered an automatic trigger of unlikeliness to pay.

Moratoria granted to customers already classified under non-performing loans are subject to a specific assessment and considered additional forbearance measures.

With regard to measurement, in view of the guidance provided by the regulators and standard setters and as set out in more detail below, the scarcity of reliable forecasting information available at present currently makes it extremely difficult to produce future macroeconomic forecasts that can be considered reasonable and supportable. This is significant because

[5] See ESMA "ESMA recommends action by financial market participants for COVID-19 impact" of 11 March.
[6] See IOSCO "Application of Accounting Standards during the COVID-19 Outbreak" of 3 April.

IFRS 9 expressly requires an entity to estimate expected losses on loans by taking into account all available current and future information considered reasonable and supportable.

The positions of the Supervisory Authorities that have commented on this aspect (the ECB and the EBA) appear to agree in suggesting extreme caution, at least in the immediate future, in changing valuation scenarios. At the same time, the ECB's suggestion of using a baseline scenario anchored to its guidance seems to indicate its intention to target banks centrally in this particular situation, by providing a uniform parameter for the forecast of future economic trends.

In view of the guidance already referred to above regarding the advisability of i) focusing on long-term forecasts to capture the structural effects of the crisis without emphasising procyclicality and ii) avoiding the "mechanical" use of current models for estimating expected credit loss, on the one hand, and the difficulties in applying ordinary models for estimating expected losses, which use forecasts for the current year that only consider the next two years, and are therefore heavily influenced by short-term movements, on the other hand, the Group has supplemented its ordinary valuation process with management overlays, in accordance with the guidance provided by the various authorities.
Accordingly, Intesa Sanpaolo has considered it prudent to identify specific adjustments to produce an initial estimate of the possible effects on the measurement of loans linked to the COVID-19 pandemic that can already be included in the figures for March. The logical process that led to this decision can be summarised as follows:
- consideration of the situation of partial forward-looking information, in particular the limited availability of reasonable and supportable future information, as required by IFRS 9;
- analysis of the specific guidance provided by the regulators, which have suggested avoiding – at least in this period of heightened uncertainty – excessively procyclical impacts and have provided specific anchor points for future scenarios, to be modified with appropriate management adjustments;
- identification of these judgement-based measures from a prudential perspective based on the specific guidance provided by the IASB.

The measures identified by the Group therefore involved:
- the correction of the most-likely macroeconomic scenario used for the 2019 Financial Statements, to take into account the ECB's indications regarding an economic slowdown, adjusted conservatively to reflect the additional negative impacts from the lockdowns. More specifically, for the preparation of the Interim Statement as at 31 March 2020, the Group has not established a new baseline scenario for forward-looking valuations of performing loans. Instead, in view of the negative developments in the final part of the quarter, it has adopted a more prudent position by considering the full effect on the entire performing portfolio of the alternative worst-case scenario identified in December 2019, which envisages an even greater economic slowdown than the ECB scenario;
- the collective assessment of the riskiest part of the performing portfolio – identified using a top-down approach solely for valuation purposes – by identifying the economic sectors most at risk in the current scenario (including transport, energy, services, and manufacturing industries) and by applying a rating class denotch to all the counterparties from these sectors. As a result, this approach consisted of:
  - the simulation of GDP stress scenarios up to a fall of 10.7% for Italy in 2020;
  - the identification of positions for which the denotching results in a significant increase in credit risk (SICR), with consequent reassessment of the staging and calculation of the lifetime ECL based on the updated rating;
  - the calculation of the ECL with ECL increases of more than 50%, for the exposures belonging to these most impacted economic sectors.

The profit or loss effects of these measures have been quantified at a total of 312 million euro (gross of tax) and have been recognised in the financial statements under provisions for risks and charges (and in the provisions for liabilities) to better isolate this judgemental component. The latter, as mentioned above, has been determined on a collective basis through a management adjustment and not individually for each position, according to the approach normally adopted for determining adjustments and recoveries on loans, and only following the approval of the results, in order to obtain the most up-to-date information possible with respect to the approval of the quarterly figures. More specifically, as a result of the progressive evolution of the health emergency, the repeated measures (or announcements of measures) by national governments and the European Council, and the various analyses by the Authorities, as well as the changes in the estimates of the macroeconomic effects, the framework for establishing an estimate of an impact is changing over time. Given that the level of uncertainty in this framework directly affects the variability of the estimates, the Group has decided to use as much information available as possible, including all the updates made available in April. However, this choice inevitably means that it was impossible to allocate provisions to granularly adjust the value of the individual financial instruments. As a result, the provision for potential losses on loans has been recognised in the provisions for risks and charges. This choice – also bearing in mind that the Group's March interim statement does not qualify as an "interim report" within the meaning of IAS 34 – is merely a presentation discrepancy that does not have any impact on the Group's profit and loss results for the period and capital ratios, because there is no substantial difference in relation to the allocation of the provisions, also from a prudential perspective. For the Group's Half-Yearly Report as at 30 June 2020, which is considered an interim report in accordance with IAS 34, this component will be reviewed and allocated within the ECL.

Financial instruments at fair value
Despite the fact that the performance of the markets suffered a sharp decline in March 2020, that it was influenced by the high volatility and that the fluctuation in prices and market parameters was often due to information concerning the progress of the health emergency and government interventions rather than economic and financial factors, for the Interim Statement as at 31 March 2020 the valuation of financial instruments at fair value has been updated on the basis of current market conditions, in line with IFRS 13 and the Group's Fair Value Policy.
Specifically, for investments at fair value that derive their value from market prices – either directly, in the case of listed securities, or indirectly, in the case of convertible investments or investments closely linked to listed instruments or

instruments measured using market multiples – and are therefore measured using fair value levels 1 and 2, the valuations have been updated based on stock exchange prices.
For investment funds (classified in the FVTPL category), the positive profit or loss effects (approximately 25 million euro) that would have resulted from the update of the valuation on the basis of the NAV as at 31 December 2019 have, prudentially, not been taken into account because they referred to a situation prior to COVID-19.
An exception to this general approach has been made for certain investments in equity instruments measured using level 3 inputs, which represent a very small share of the Group's total assets. Given that the value of these instruments is a direct expression of the medium/long-term prospective cash flows envisaged in the related business plans and taking into account the guidance from the Supervisory Authorities, described in the previous paragraphs, which suggest extreme caution, at least in the immediate future, in changing the valuation scenarios and general macroeconomic and sector forecasts, the most recent valuation has not been updated, except for investments that showed signs of impairment irrespective of the current economic and financial situation linked to the COVID-19 emergency.

Certificates issued by Banca IMI
The market environment resulting from the COVID-19 emergency also had a significant effect on the trend in the Bank's own credit risk (DVA), resulting from the issuance of certificates, which recorded a sudden and material increase in March.
The analysis of the number of daily trades and their values on the two related listed markets (EuroTLX and SeDeX) showed an extremely illiquid situation at the end of March, as well as a significant widening of the bid-ask spread, compared to previous months. As a result, the certificates previously classified at level 1 of the fair value hierarchy, which on 31 March had trades below the internally set thresholds, were transferred to level 2.
For valuation purposes, the transfer to level 2 and the high level of uncertainty in the markets for the certificates resulted in the need to amend the DVA, due to the low liquidity and the widening of the bid-ask spread, in order to obtain a prudent estimate of the fair value, in line with the Group's Fair Value Policy.

Impairment testing of goodwill, intangible assets and equity investments
In the current market environments, which are significantly influenced by the global spread of the COVID-19 epidemic, the impairment testing for intangible assets is also very difficult.
Specifically, in accordance with IAS 36, the impairment testing of the Intesa Sanpaolo Group's intangible assets and the goodwill is generally based on the notion of value in use, which requires an estimate of the future cash flows that may be generated over the long term through the continuous use of the asset being tested, and the projections underlying the estimates of future cash flows relate to the general macroeconomic or industry-specific situation. In the current market environment, the Supervisory Authorities appear to agree in suggesting extreme caution, at least in the immediate future, in changing the assessment scenarios, in light of the extreme uncertainty both regarding the evolution of the COVID-19 epidemic and the extent and effects of the government measures to support the economy. In addition, the Authorities suggest caution in using estimates based on scenarios and assumptions at this highly uncertain stage and to consider, as soon as possible, any long-term effects, which, as mentioned above, represent the time frame underlying the impairment testing.
For the Interim Statement as at 31 March 2020, we have attempted to identify the general outlines of a scenario for the situation resulting from the COVID-19 epidemic, even though it is susceptible to unforeseeable developments in view of the significant uncertainty generated by the extraordinary nature of the COVID-19 event. The scenario identified can be summarised in the forecasts for Italian GDP which could decrease in the region of 8%-10.5% in 2020 and rebound by around 4.5%-7% in 2021.
In this scenario, which confirms the soundness of the strategic actions envisaged in the Intesa Sanpaolo 2018-2021 Business Plan, the Group will be able to continue to count on its strengths, which consist of its resilient and well-diversified business model, focused on wealth management & protection services and in particular on the development of non-motor P&C insurance products, in addition to strategic flexibility in managing operating costs and proactive management of non-performing loans. Considerations relating to the possible macroeconomic scenario and Intesa Sanpaolo's inherent strengths lead to an estimated net income for the Group that may be no lower than around 3 billion euro in 2020 and no lower than around 3.5 billion in 2021, assuming a potential cost of risk of up to around 90 basis points in 2020 and up to around 70 basis points in 2021.
The deterioration in the macroeconomic environment, as described above, and the consequent reduction in the Group's earnings for the years 2020-2021 necessitated a sensitivity analysis of the recoverable amount of the cash generating units (CGUs) and of the Banca dei Territori CGU in particular, which had the narrowest margin between value in use and carrying amount as at 31 December 2019, however this did not identify any situations of impairment, even under stress conditions. Specifically, the sensitivity analysis was conducted by verifying the change in the recoverable amount of the CGU based on the updated macroeconomic scenario underlying the estimates of future cash flows and current market rates.
Consequently, the potential impacts on the future cash flows of the CGUs up to 2024 were estimated on the assumption that this macroeconomic scenario was also used to revise the business plan, with an inertial drag on the cash flows after 2021 resulting from the forecasts in the updated macroeconomic scenario.
Updating the scenario would lead to a sharper reduction in the earnings of the Banca dei Territori CGU for the years 2020 and 2021 than for the Group's overall earnings, which is also reflected in subsequent years, but is less pronounced: the implicit cash flow in the terminal value is only slightly lower than the corresponding figure estimated for the impairment testing for the 2019 Financial Statements.
With regard to the discount rate (Ke) for the terminal value, this has been determined on a highly prudent basis because the figure, despite being lower than on 31 December 2019 due to the decrease in the beta parameter, incorporates both the expectation of a rate recovery (a risk-free rate, namely the yield on the 10-year Bund, of 1.15% in 2024) and the maintenance of a large spread for Italy, of around 220 bps in 2024.
Extreme caution has also been adopted in the calculation of the growth rate (g), because the use of very low inflation forecasts for Italy up to 2024 generated a rate of 0.64%, which is exceptionally low even compared to the figure of 1.32% used for the previous impairment testing, and represents a negative real interest rate.
The results of the sensitivity analysis conducted identified a positive margin for the Banca dei Territori CGU with respect to its carrying amount and therefore, even though the figure was lower than as at 31 December 2019, the update of the

macroeconomic scenario following the COVID-19 epidemic is not an indicator of impairment for the purposes of the goodwill allocated to the Banca dei Territori CGU. With regard to the other CGUs which have been allocated intangible assets with indefinite useful lives, in view of the large margins with respect to their carrying amounts, even under stress conditions, identified during the impairment test as at December 2019, there were no indicators of impairment even after updating the macroeconomic scenario for the COVID-19 epidemic.
The above results also confirm the recoverable amount of the deferred tax assets recognised in the financial statements.
With regard to intangible assets with finite useful lives, no problems were identified regarding their recoverable amount, also due to the amortisation process that had reduced their carrying amounts compared to their initial book values and bearing in mind that the standard requires the recoverable amount to be determined by referring to the assets (technical reserves or asset under management) of the entire CGU at the reporting date and not only to the residual assets for which the initial value of the intangible asset was determined.
With respect to the equity investments, we believe that the conditions do not currently exist to reliably and verifiably assess what impacts the epidemic or the significant public resources being deployed will have on the individual valuations, given that these valuations are mainly based on the future cash flows generated by the investee companies. However, situations linked to structural factors independent of the stresses associated with the COVID-19 epidemic have been taken into account in the impairment testing of the recoverable amount of the investee companies.

Consolidated results

In the difficult environment outlined above, the Intesa Sanpaolo Group closed its income statement for the first quarter of 2020 with net income of 1,151 million euro, up around 10% on 1,050 million euro for the first three months of the previous year. The performance was driven not only by the increase in operating income and the decrease in operating costs, but also by the effect of the provisions for risks and charges made to take account of the specific management adjustments (210 million euro at net income level, around 300 million euro before tax) which – as stated above – represent an initial estimate, in accordance with the regulatory guidance, of the possible effects of the COVID-19 pandemic on performing loans. The net income was also impacted by the levies and charges for the banking system, whose level was higher than the comparative figure.
The detailed breakdown of the components of operating income shows net interest income of 1,747 million euro, which was substantially stable at overall level (-0.5%) with respect to the first three months of 2019, due to lower interest on non-performing assets, as a result of the progressive reduction in NPLs, and to the lower contribution from core deposits within the differentials on hedging derivatives. The contribution from customer dealing and other net interest income increased, whereas there was a decrease in the contribution from financial assets and relations with banks.
The slight fall in net fee and commission income (-1.1% to 1,844 million euro), which represented around 38% of operating income, was attributable to lower revenues from commercial banking (-6.6%) and other net fee and commission income (-8.2%), largely offset by the higher contribution from the management, dealing and financial consultancy segment (+2.8%).
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group’s life and non-life companies, showed an increase (around +7% to 312 million euro), due to the increase in the technical margin.
The Profits (Losses) on financial assets and liabilities designated at fair value, which include the profits (losses) on trading and the fair value adjustments in hedge accounting, increased significantly (994 million euro compared to 458 million euro in the first quarter of 2019) mainly due to the positive performance of assets designated at fair value through profit or loss, but also to the contribution from the profits (losses) on disposal of assets measured at fair value through other comprehensive income, due to the results achieved by taking advantage of market opportunities.
Other operating income and expenses – a caption which comprises profits on investments carried at equity and other income and expenses from continuing operations – recorded a net negative balance higher than the figure for the first quarter of 2019 (net expenses of 15 million euro compared to net expenses of 1 million euro in the first quarter of 2019).
As a result of the above changes, operating income in the first quarter of 2020 amounted to 4,882 million euro, up by around 12% on the first three months of 2019.
Operating costs (2,169 million euro) were down (-2.7%), both for personnel expenses (-2.3%), in relation to the downsizing of the workforce, which more than offset the effect of the increase linked to the renewal of the National Collective Bargaining Agreement, and for administrative expenses (-5.7%), which fell across all the main expense items. Amortisation and depreciation increased slightly compared to the first three months of 2019 (+1.5%).
The cost/income ratio for the period, which benefited from the revenue performance and careful cost management, stood at 44.4%.
As a result of these revenue and cost trends, the operating margin amounted to 2,713 million euro, up by around 27% on the first quarter of 2019.
Net adjustments to loans increased to 403 million euro (around +9%). In this regard, you are reminded that – as already mentioned – the specific management adjustments made for the initial estimate of the possible effects of the COVID-19 pandemic on performing loans have been allocated to allowances for risks and charges in order to better isolate this judgemental component, determined on a collective basis and not individually for each position, and necessarily made near the approval of the results in order to obtain the most up-to-date information. This provision, which amounted to around 300 million euro, resulted in a significant increase in other net provisions and net impairment losses on other assets, which stood at 419 million euro (30 million euro for the first quarter of 2019).
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 (3 million euro) compared to a figure of 6 million euro for the first quarter of 2019.
Income from discontinued operations amounted to 29 million euro compared to 19 million euro for the first quarter of 2019 and related to the profit or loss figures attributable to the business line, soon to be transferred to Nexi, dedicated to acquiring activities in the payment systems sector.
As a result of the trends described above, gross income amounted to 1,923 million euro (around +9%). Taxes on income came to 545 million euro, with a tax rate of 28.3%.

Net of tax, charges for integration and exit incentives were recorded of 15 million euro, as well as the effects of purchase price allocation of 26 million euro. The charges for maintaining the stability of the banking industry were up on the first quarter of the previous year, to a total of 191 million euro after tax (146 million euro in the first quarter of 2019), corresponding to 273 million euro before tax, and essentially consisted of estimated charges for the full year 2020 for ordinary contributions to the resolution funds.
After allocating the losses attributable to minority interests of 5 million euro, the income statement for the first quarter of 2020 closed, as stated, with net income of 1,151 million euro, compared to 1,050 million euro in the first quarter of 2019.

With regard to the balance sheet figures, loans to customers as at 31 March 2020 amounted to around 405 billion euro, an increase compared to the end of 2019 (+10 billion euro, or +2.4%), mainly due to the positive performance for advances and other loans (around +11 billion euro, or +7.5%) within the commercial banking loans segment, whose overall performance (around +14.4 billion euro, or +4.2%) was also driven by mortgage loans (+3.5 billion euro, or +2%). The decrease in non-performing loans (-0.2 billion euro, or around -1.6%) was offset by the increase in loans represented by securities (+0.2 billion euro, or +3.6%). Lastly, there was a decrease in repurchase agreements (-4.7 billion euro, or around -16%).
On the funding side, direct deposits from banking business totalled around 434 billion euro at the end of March, an increase on the end of the previous year (+8.1 billion euro, or around +2%) due to the changes in the financial component, consisting of repurchase agreements (+9.1 billion euro, mainly attributable to institutional counterparties), and the growth in current accounts and deposits (+2.6 billion euro, or around +1%) and in certificates of deposit, subordinated liabilities, and other deposits (+1 billion euro in total for the three components). Bond funding, on the other hand, was down (-4.6 billion euro).
Direct deposits from insurance business – which also includes technical reserves – amounted to around 156 billion euro at the end of March, down on the end of 2019 (-9.4 billion euro, or around -6%). Specifically, there was a decrease both for financial liabilities designated at fair value (-7.2 billion euro, or approximately -10%), consisting entirely of unit-linked products, and for technical reserves (-2.2 billion euro, or -2.5%), 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 March fell to 485 billion euro, down by around 9% compared to the end of December 2019, attributable to both assets under management and assets under administration, mainly as a result of the depreciation produced by the performance of the financial markets as a result of the pandemic. Specifically, assets under management, which account for over two-thirds of the total aggregate, decreased (-24 billion euro, or around -6.9%), spread across all main components: from mutual funds (-9.1%) to portfolio management schemes (-9.2%), pension funds (-5%), technical reserves and insurance financial liabilities (-4.5%) and relations with institutional customers (-4.6%). Although all the products were affected by the drastic depreciation in the overall assets managed, the decline for assets under management was much more modest than for the assets under administration (-14%) – essentially represented by securities and third-party products in custody – or for the FTSE MIB index for the quarter (-27.5%) or the other financial market indices.

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

The public exchange offer for all UBI Banca shares

As stated in the 2019 Financial Statements with regard to the events after the year end, on 17 February 2020, Intesa Sanpaolo announced that it had decided to launch a voluntary public exchange offer in respect of all the ordinary shares of UBI Banca.
For each UBI Banca share tendered to the offer, Intesa Sanpaolo will offer a consideration, not subject to any adjustment, equal to 1.7000 newly issued ordinary shares of Intesa Sanpaolo. The Intesa Sanpaolo shares offered as consideration will be issued by virtue of a capital increase with the exclusion of the pre-emption right pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved to the persons tendering UBI Banca's shares to the offer. In this regard, the Shareholders' Meeting held on 27 April 2020 – with 8,935,308,480 votes in favour equivalent to 98.04467% of the ordinary shares represented – granted the Board of Directors powers to approve a share capital increase, by 31 December 2020, up to a maximum total amount of 1,011,548,072.60 euro, in addition to any share premium, with the issuance of a maximum number of 1,945,284,755 ordinary shares. The Shareholders' Meeting also decided to consequently amend Article 5 of the Articles of Association and grant the Chairman of the Board of Directors and the Chief Executive Officer of the Company, on a several basis and through possible appointment of special attorneys, powers to do whatever required, necessary or useful to execute the resolutions above.
The finalisation of the transaction is expected to take place by the end of 2020 and is subject to the regulatory authorisations being received, as well as to the conditions to be met as indicated in the announcements to the market, which will be further detailed in the Offer Document. The transaction will enable the combined Group to strengthen its support to the real economy and the social economy reinforcing its position as the first Bank in Italy with market shares of around 20% in all main business activities, enhancing creation and distribution of value by achieving significant synergies with no social impact and its reducing risk profile at no extraordinary cost to shareholders.
Intesa Sanpaolo considers UBI Banca amongst the best Italian banks. UBI Banca has local entrenchment in the most dynamic regions of the country, enjoys outstanding results that have been achieved thanks to the excellent job of both its CEO and its management team. All this can continue to be achieved and be indeed further enhanced in the combined Group. UBI Banca stands out for its similarities with Intesa Sanpaolo, specifically as regards the business model and the corporate values – many UBI Banca managers have had previous job experience at the Intesa Sanpaolo Group. In view of the shared corporate values in terms of sustainability and inclusion and social and environmental responsibility, a new unit of the combined Group's Impact Bank will be based in Brescia and in Bergamo. The presence of the large number of Italian shareholders of UBI Banca, specifically the foundations, among the shareholders of the combined Group would reinforce the shared values, including in terms of shareholder base.

In order to pre-emptively address antitrust issues, the transaction includes a binding agreement signed by Intesa Sanpaolo with BPER Banca. The agreement provides for the disposal of a going concern of the Group resulting from the combination (in the region of around 400-500 branches) and related staff and customer relationships for a cash consideration equal to the lower of 55% of the Common Equity Tier 1 capital of the going concern, and 80% of the implied multiple paid by Intesa Sanpaolo for the Common Equity Tier 1 capital of UBI Banca.
BPER Banca, which Intesa Sanpaolo considers amongst the best Italian banks as well, with a successful management team, corporate values aligned with Intesa Sanpaolo's own values and with a strong Italian component in its shareholder base will in this way contribute to reinforcing the support to the economy of the country. Furthermore, the transaction includes a binding agreement with UnipolSai Assicurazioni, which provides for the disposal of insurance activities related to the aforementioned going concern against a cash consideration.
The benefits of the transaction for stakeholders will include:

- shareholders: high and sustainable cash dividends, bearing in mind that the dividends distributed by Intesa Sanpaolo in previous years have enabled the foundations that are among its shareholders to grant more than half of the total funds granted by all Italian banking foundations; additional value creation by enhancing revenue generation as a result of an enlarged customer base, improving asset quality and achieving synergies without adding any complexity;
- customers: unique customer reach in all Italian regions; strengthening of product and service offering through the development of technology, product innovation, time-to-market for the offering of new products, thanks to greater investment capacity; 30 billion euro of additional loan granting in the 2021-2023 period to support Italy's real economy, enabled by enhanced proximity to the local economy;
- the Group's people: hiring 2,500 young people to support the Group's growth, enabling generational change and supporting employment, through one new hire for every two voluntary exits; improved capability to attract new talents and more professional development opportunities;
- community and environment: a Group that operates as a driver of sustainable and inclusive growth (creating a leading Impact Bank) and is committed to becoming a reference model in terms of sustainability and social and cultural responsibility and supporting the circular and green economy; promoting local economies; a 10 billion euro increase in new lending to the green economy (from 50 billion euro to 60 billion euro), a 1 billion euro increase in the Circular Economy Credit Plafond (from 5 billion euro to 6 billion euro), increase of the Fund for Impact lending capacity (from around 1.2 billion euro to 1.5 billion euro), strengthening of the 2018-2021 Business Plan initiatives to reduce child poverty and support people in need, delivering each year over 4 million meals (around 1 million euro more), around 90,000 dormitory beds (around 20% more) and around 90,000 medicine prescriptions and items of clothing (around 20% more).

The combined Group will benefit from its capability of revenue generation of a European scale that leverages a resilient business model focused on wealth management & protection, with a footprint in Italy which enhances the country's savings. The combined Group will have over 1,100 billion euro in customer financial assets with around 3 million UBI Banca customers, who hold around 200 billion euro in financial assets.
Once the transaction is finalised, Intesa Sanpaolo will create additional value also thanks to the synergies delivered, continue to pursue a policy that envisages high shareholder remuneration, maintain solid capital ratios, and improve its asset quality further at no extraordinary cost to shareholders, using the negative goodwill resulting from the purchase price allocation process envisaged by IFRS 3 to cover, in 2020, the integration charges, as well as the loan loss provisions to accelerate NPL reduction.

Outlook

It is believed that the information currently available makes it possible to identify general trends of a scenario in the aftermath of the COVID-19 epidemic, even if it is susceptible of unpredictable evolutions taking into account the significant uncertainties surrounding the extraordinary nature of the COVID-19 event.
The scenario can be summarised in the forecasts for Italian GDP which could decrease in the region of 8%-10.5% in 2020 and rebound 4.5%-7% in 2021.
In this scenario, in which the validity of the strategic actions envisaged in the Intesa Sanpaolo 2018-2021 Business Plan is confirmed, the Group can continue to rely on its strengths – a resilient and well-diversified business model, which is focused on Wealth Management & Protection and specifically on the development of non-motor P&C insurance products, strategic flexibility in managing operating costs and proactive management of non-performing loans.
Furthermore, in 2020, the Intesa Sanpaolo Group can count on a solid buffer, consisting of 300 million euro of provisions set aside in the first quarter and the capital gain on the Nexi transaction over the year. This would make it possible to absorb a total of around 1.5 billion euro of pre-tax adjustments to loans for the full year against the possible COVID-19 epidemic impacts.
Considerations relating to the possible macroeconomic scenario and Intesa Sanpaolo's inherent strengths lead to an estimated net income for the Group that could be no lower than around 3 billion euro in 2020 and no lower than around 3.5 billion in 2021, assuming a potential cost of risk of up to around 90 basis points in 2020 and up to around 70 basis points in 2021.
The dividend policy indicated in the 2018-2021 Business Plan and envisaging the distribution of cash dividends corresponding to a payout ratio of 75% of net income for 2020 and 70% for 2021, is confirmed. This is subject to ECB indications in respect of dividend distribution after 1 October 2020, the timeline of the recommendation of 27 March 2020.
The Business Plan projection of a pro-forma fully loaded Common Equity Tier 1 ratio above 13%[7] in 2021 is also confirmed, even taking into account the potential distribution of the 2019 suspended dividend, subject to ECB indications in respect of dividend distribution after 1 October 2020.

[7] Estimated by applying the fully loaded parameters, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first-time adoption of IFRS 9 and the non-taxable public cash contribution of 1,285 million euro covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.
Above 12% when excluding the aforementioned DTA absorptions.

In the aftermath of the COVID-19 epidemic, the strategic rationale underlying the voluntary public exchange offer for all the ordinary shares of UBI Banca takes on even stronger significance, specifically when considering synergies, above all in terms of costs, increased NPL coverage and reduction of unlikely-to-pay loans and bad loans – all key elements in respect of which the announcement made to the market on 17 February 2020 is confirmed.
With regard to the expected benefits for stakeholders resulting from the transaction – while specifying that as at the data of approval of this Interim Statement (5 May 2020) Intesa Sanpaolo does not currently possess information regarding the possible COVID-19 pandemic impacts on UBI Banca and that forward-looking data for UBI Banca have been drawn from public estimates of financial analysts – it is possible to estimate, based on the aforementioned considerations relating to Intesa Sanpaolo, that the combined Group could record a net income of no lower than 5 billion euro in 2022.
The dividend policy for the combined Group is consequently updated and envisages the distribution of cash dividends corresponding to a payout ratio of 75% of the net income for 2020 (excluding the contribution of the negative goodwill[8] not allocated to cover integration charges and reduce risk profile from net income) and 70% for 2021. This, too, is subject to ECB indications in respect of dividend distribution after 1 October 2020.
The pro-forma fully loaded Common Equity Tier 1 for the combined Group expected to be above 13%[9] in 2021, as disclosed on 17 February 2020, is confirmed.

8 The actual determination of the negative goodwill will result following the outcome of the PPA procedure provided for under IFRS 3.

9 Estimated by applying the fully loaded parameters, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first time adoption of IFRS 9 and the non-taxable public cash contribution of 1,285 million euro covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.
Above 12% when excluding the aforementioned DTA absorptions.

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		31.03.2020	31.12.2019	Changes amount	Changes %
10.	Cash and cash equivalents	8,233	9,745	-1,512	-15.5
20.	Financial assets measured at fair value through profit or loss	56,298	49,414	6,884	13.9
	a) financial assets held for trading	*51,657*	*45,152*	*6,505*	*14.4*
	b) financial assets designated at fair value	*180*	*195*	*-15*	*-7.7*
	c) other financial assets mandatorily measured at fair value	*4,461*	*4,067*	*394*	*9.7*
30.	Financial assets measured at fair value through other comprehensive income	72,279	72,410	-131	-0.2
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	158,656	168,202	-9,546	-5.7
40.	Financial assets measured at amortised cost	501,088	467,815	33,273	7.1
	a) due from banks	*69,469*	*49,027*	*20,442*	*41.7*
	b) loans to customers	*431,619*	*418,788*	*12,831*	*3.1*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	567	612	-45	-7.4
50.	Hedging derivatives	4,020	3,029	991	32.7
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,199	1,569	630	40.2
70.	Investments in associates and companies subject to joint control	1,273	1,240	33	2.7
80.	Technical insurance reserves reassured with third parties	28	28	-	-
90.	Property and equipment	8,753	8,878	-125	-1.4
100.	Intangible assets	9,138	9,211	-73	-0.8
	of which:				
	- goodwill	*4,054*	*4,055*	*-1*	*-0.0*
110.	Tax assets	15,983	15,467	516	3.3
	a) current	*1,537*	*1,716*	*-179*	*-10.4*
	b) deferred	*14,446*	*13,751*	*695*	*5.1*
120.	Non-current assets held for sale and discontinued operations	765	494	271	54.9
130.	Other assets	8,621	7,988	633	7.9
Total assets		**847,901**	**816,102**	**31,799**	**3.9**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		31.03.2020	31.12.2019	Changes	
				amount	%
10.	Financial liabilities measured at amortised cost	546,104	519,382	26,722	5.1
	a) due to banks	*120,116*	*103,324*	*16,792*	*16.3*
	b) due to customers	*344,067*	*331,181*	*12,886*	*3.9*
	c) securities issued	*81,921*	*84,877*	*-2,956*	*-3.5*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	826	-	-
20.	Financial liabilities held for trading	54,376	45,226	9,150	20.2
30.	Financial liabilities designated at fair value	762	4	758	
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,822	75,935	-7,113	-9.4
40.	Hedging derivatives	11,658	9,288	2,370	25.5
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	658	527	131	24.9
60.	Tax liabilities	2,580	2,321	259	11.2
	a) current	*642*	*455*	*187*	*41.1*
	b) deferred	*1,938*	*1,866*	*72*	*3.9*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	50	41	9	22.0
80.	Other liabilities	13,243	12,070	1,173	9.7
90.	Employee termination indemnities	1,037	1,134	-97	-8.6
100.	Allowances for risks and charges	4,097	3,997	100	2.5
	a) commitments and guarantees given	*477*	*482*	*-5*	*-1.0*
	b) post-employment benefits	*232*	*232*	*-*	*-*
	c) other allowances for risks and charges	*3,388*	*3,283*	*105*	*3.2*
110.	Technical reserves	86,939	89,136	-2,197	-2.5
120.	Valuation reserves	-1,833	-157	1,676	
125.	Valuation reserves pertaining to insurance companies	182	504	-322	-63.9
130.	Redeemable shares	-	-	-	
140.	Equity instruments	5,550	4,103	1,447	35.3
150.	Reserves	17,408	13,279	4,129	31.1
160.	Share premium reserve	25,075	25,075	-	-
170.	Share capital	9,086	9,086	-	-
180.	Treasury shares (-)	-103	-104	-1	-1.0
190.	Minority interests (+/-)	233	247	-14	-5.7
200.	Net income (loss) (+/-)	1,151	4,182	-3,031	-72.5
Total liabilities and shareholders' equity		**847,901**	**816,102**	**31,799**	**3.9**

Consolidated income statement

(millions of euro)

		31.03.2020	31.03.2019	Changes amount	Changes %
10.	Interest and similar income	2,427	2,576	-149	-5.8
	of which: interest income calculated using the effective interest rate method	*2,525*	*2,660*	*-135*	*-5.1*
20.	Interest and similar expense	-686	-840	-154	-18.3
30.	**Interest margin**	**1,741**	**1,736**	**5**	**0.3**
40.	Fee and commission income	2,279	2,276	3	0.1
50.	Fee and commission expense	-521	-503	18	3.6
60.	**Net fee and commission income**	**1,758**	**1,773**	**-15**	**-0.8**
70.	Dividend and similar income	20	23	-3	-13.0
80.	Profits (Losses) on trading	-134	109	-243	
90.	Fair value adjustments in hedge accounting	-17	-20	-3	-15.0
100.	Profits (Losses) on disposal or repurchase of:	914	368	546	
	a) financial assets measured at amortised cost	*-22*	*-14*	*8*	*57.1*
	b) financial assets measured at fair value through other comprehensive income	*510*	*263*	*247*	*93.9*
	c) financial liabilities	*426*	*119*	*307*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	132	9	123	
	a) financial assets and liabilities designated at fair value	*221*	*-57*	*278*	
	b) other financial assets mandatorily measured at fair value	*-89*	*66*	*-155*	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	225	1,098	-873	-79.5
120.	**Net interest and other banking income**	**4,639**	**5,096**	**-457**	**-9.0**
130.	Net losses/recoveries for credit risks associated with:	-388	-412	-24	-5.8
	a) financial assets measured at amortised cost	*-374*	*-405*	*-31*	*-7.7*
	b) financial assets measured at fair value through other comprehensive income	*-14*	*-7*	*7*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-27	-3	24	
140.	Profits (Losses) on changes in contracts without derecognition	-4	-1	3	
150.	**Net income from banking activities**	**4,220**	**4,680**	**-460**	**-9.8**
160.	Net insurance premiums	2,471	2,505	-34	-1.4
170.	Other net insurance income (expense)	-2,278	-3,275	-997	-30.4
180.	**Net income from banking and insurance activities**	**4,413**	**3,910**	**503**	**12.9**
190.	Administrative expenses:	-2,375	-2,376	-1	-0.0
	a) personnel expenses	*-1,351*	*-1,402*	*-51*	*-3.6*
	b) other administrative expenses	*-1,024*	*-974*	*50*	*5.1*
200.	Net provisions for risks and charges	-323	26	-349	
	a) commitments and guarantees given	*4*	*31*	*-27*	*-87.1*
	b) other net provisions	*-327*	*-5*	*322*	
210.	Net adjustments to / recoveries on property and equipment	-129	-133	-4	-3.0
220.	Net adjustments to / recoveries on intangible assets	-179	-162	17	10.5
230.	Other operating expenses (income)	141	210	-69	-32.9
240.	**Operating expenses**	**-2,865**	**-2,435**	**430**	**17.7**
250.	Profits (Losses) on investments in associates and companies subject to joint control	9	2	7	
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	7	-	7	
290.	**Income (Loss) before tax from continuing operations**	**1,564**	**1,477**	**87**	**5.9**
300.	Taxes on income from continuing operations	-439	-443	-4	-0.9
310.	**Income (Loss) after tax from continuing operations**	**1,125**	**1,034**	**91**	**8.8**
320.	Income (Loss) after tax from discontinued operations	21	14	7	50.0
330.	**Net income (loss)**	**1,146**	**1,048**	**98**	**9.4**
340.	Minority interests	5	2	3	
350.	**Parent Company's net income (loss)**	**1,151**	**1,050**	**101**	**9.6**
	Basic EPS – Euro	**0.07**	**0.06**		
	Diluted EPS – Euro	**0.07**	**0.06**		

Statement of consolidated comprehensive income

(millions of euro)

		31.03.2020	31.03.2019	Changes	
				amount	%
10.	**Net income (Loss)**	**1,146**	**1,048**	**98**	**9.4**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**-28**	**20**	**-48**	
20.	Equity instruments designated at fair value through other comprehensive income	-142	46	-188	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	50	-	50	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	-1	4	-5	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	65	-30	95	
80.	Non current assets classified as held for sale	-	-	-	
90.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-1,972**	**130**	**-2,102**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	-163	28	-191	
120.	Cash flow hedges	-20	-91	-71	-78.0
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	-1,465	55	-1,520	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	-326	128	-454	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	2	10	-8	-80.0
170.	**Total other comprehensive income (net of tax)**	**-2,000**	**150**	**-2,150**	
180.	**Total comprehensive income (captions 10 + 170)**	**-854**	**1,198**	**-2,052**	
190.	**Total consolidated comprehensive income pertaining to minority interests**	**-7**	**-17**	**-10**	**-58.8**
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**-847**	**1,215**	**-2,062**	

Changes in consolidated shareholders' equity as at 31 march 2020

(millions of euro)

	31.03.2020												
	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 31.12.2019	**9,455**	**-**	**25,095**	**12,462**	**779**	**-251**	**504**	**4,103**	**-104**	**4,172**	**56,215**	**55,968**	**247**
Changes in opening balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AMOUNTS AS AT 1.1.2020	**9,455**	**-**	**25,095**	**12,462**	**779**	**-251**	**504**	**4,103**	**-104**	**4,172**	**56,215**	**55,968**	**247**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**4,172**						**-4,172**	**-**	**-**	**-**
Dividends and other allocations				**-23**							**-23**	**-**	**-23**
CHANGES IN THE PERIOD													
Changes in reserves					**45**						**45**	**45**	**-**
Operations on shareholders' equity													
Issue of new shares									1		1	1	-
Purchase of treasury shares											-	-	-
Dividends											-	-	-
Changes in equity instruments								1,447			1,447	1,447	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-8			-74							-82	-98	16
Total comprehensive income for the period						**-1,678**	**-322**			**1,146**	**-854**	**-847**	**-7**
SHAREHOLDERS' EQUITY AS AT 31.03.2020	**9,447**	**-**	**25,095**	**16,537**	**824**	**-1,929**	**182**	**5,550**	**-103**	**1,146**	**56,749**	**56,516**	**233**
- Group	**9,086**	**-**	**25,075**	**16,584**	**824**	**-1,833**	**182**	**5,550**	**-103**	**1,151**	**56,516**		
- minority interests	**361**	**-**	**20**	**-47**	**-**	**-96**	**-**	**-**	**-**	**-5**	**233**		

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

Changes in consolidated shareholders' equity as at 31 march 2019

(millions of euro)

	31.03.2019												
	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				**4,051**						**-4,051**	**-**	**-**	**-**
Dividends and other allocations										**-21**	**-21**	**-**	**-21**
CHANGES IN THE PERIOD													
Changes in reserves				-5							-5	-5	**-**
Operations on shareholders' equity													
Issue of new shares											-	-	-
Purchase of treasury shares									1		1	1	-
Dividends											-	-	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-13		-1	-30							-44	-33	-11
Total comprehensive income for the period						**22**	**128**			**1,048**	**1,198**	**1,215**	**-17**
SHAREHOLDERS' EQUITY AS AT 31.03.2019	**9,460**	**-**	**24,788**	**16,487**	**578**	**-958**	**137**	**4,103**	**-83**	**1,048**	**55,560**	**55,202**	**358**
- Group	**9,085**	**-**	**24,768**	**16,441**	**578**	**-877**	**137**	**4,103**	**-83**	**1,050**	**55,202**		
- minority interests	**375**	**-**	**20**	**46**	**-**	**-81**	**-**	**-**	**-**	**-2**	**358**		

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

Report on operations

Economic results

General aspects

A condensed reclassified consolidated income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary and material, also to account for changes in the scope of consolidation.

The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.

In particular, in addition to the restatement, pursuant to IFRS 5, of the 2019 economic results of the business unit contributed to Nexi under the agreement entered into in December 2019, already included in the accounts, the restatement of the comparative figures on a like-for-like basis also involved the inclusion among Operating costs of the effect of the fee to be paid to Prelios under the agreement, which entered into effect at the end of 2019, governing the servicing of unlikely-to-pay (UTP) loans, assuming that this agreement had entered into effect from 1 January 2019, since it will have an ongoing impact on future income statements.

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 caption 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 Income from financial assets and liabilities relating to insurance business, have been reclassified, along with net premiums and the balance of income and expenses from insurance business, to the specific caption 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 caption 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 caption 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, such as those 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 are 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 are 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)

	31.03.2020	31.03.2019	Changes	
			amount	%
Net interest income	1,747	1,756	-9	-0.5
Net fee and commission income	1,844	1,865	-21	-1.1
Income from insurance business	312	291	21	7.2
Profits (Losses) on financial assets and liabilities designated at fair value	994	458	536	
Other operating income (expenses)	-15	-1	14	
Operating income	**4,882**	**4,369**	**513**	**11.7**
Personnel expenses	-1,355	-1,387	-32	-2.3
Other administrative expenses	-550	-583	-33	-5.7
Adjustments to property, equipment and intangible assets	-264	-260	4	1.5
Operating costs	**-2,169**	**-2,230**	**-61**	**-2.7**
Operating margin	**2,713**	**2,139**	**574**	**26.8**
Net adjustments to loans	-403	-369	34	9.2
Other net provisions and net impairment losses on other assets	-419	-30	389	
Other income (expenses)	3	6	-3	-50.0
Income (Loss) from discontinued operations	29	19	10	52.6
Gross income (loss)	**1,923**	**1,765**	**158**	**9.0**
Taxes on income	-545	-527	18	3.4
Charges (net of tax) for integration and exit incentives	-15	-22	-7	-31.8
Effect of purchase price allocation (net of tax)	-26	-40	-14	-35.0
Levies and other charges concerning the banking industry (net of tax)	-191	-146	45	30.8
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	5	20	-15	-75.0
Net income (loss)	**1,151**	**1,050**	**101**	**9.6**

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

Quarterly development of the reclassified income statement

(millions of euro)

	2020	2019			
	First quarter	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Net interest income	1,747	1,747	1,741	1,761	1,756
Net fee and commission income	1,844	2,166	1,966	1,965	1,865
Income from insurance business	312	308	301	284	291
Profits (Losses) on financial assets and liabilities designated at fair value	994	356	480	634	458
Other operating income (expenses)	-15	-10	5	10	-1
Operating income	**4,882**	**4,567**	**4,493**	**4,654**	**4,369**
Personnel expenses	-1,355	-1,518	-1,421	-1,418	-1,387
Other administrative expenses	-550	-749	-632	-622	-583
Adjustments to property, equipment and intangible assets	-264	-285	-261	-252	-260
Operating costs	**-2,169**	**-2,552**	**-2,314**	**-2,292**	**-2,230**
Operating margin	**2,713**	**2,015**	**2,179**	**2,362**	**2,139**
Net adjustments to loans	-403	-693	-473	-554	-369
Other net provisions and net impairment losses on other assets	-419	-168	-19	-37	-30
Other income (expenses)	3	50	-2	1	6
Income (Loss) from discontinued operations	29	25	22	22	19
Gross income (loss)	**1,923**	**1,229**	**1,707**	**1,794**	**1,765**
Taxes on income	-545	-311	-527	-441	-527
Charges (net of tax) for integration and exit incentives	-15	-27	-27	-30	-22
Effect of purchase price allocation (net of tax)	-26	-12	-37	-28	-40
Levies and other charges concerning the banking industry (net of tax)	-191	-22	-96	-96	-146
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-
Minority interests	5	15	24	17	20
Net income (loss)	**1,151**	**872**	**1,044**	**1,216**	**1,050**

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

Operating income

Operating income amounted to 4,882 million euro, up by 11.7% on the first quarter of 2019 due to the significant performances of profits (losses) on financial assets and liabilities designated at fair value, whereas the other components were essentially stable, showing very limited changes, with income from insurance business increasing and net interest income, net fee and commission income and other operating income (expenses) decreasing.

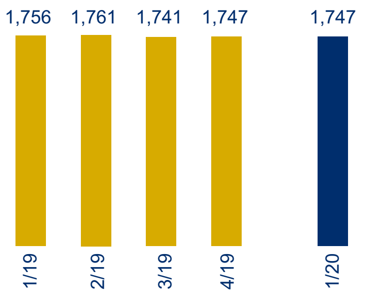
Net interest income

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Relations with customers	1,831	1,876	-45	-2.4
Securities issued	-455	-543	-88	-16.2
Customer dealing	**1,376**	**1,333**	**43**	**3.2**
Instruments measured at amortised cost which do not constitute loans	87	80	7	8.8
Other financial assets and liabilities designated at fair value through profit or loss	16	37	-21	-56.8
Other financial assets designated at fair value through other comprehensive income	199	213	-14	-6.6
Financial assets and liabilities	**302**	**330**	**-28**	**-8.5**
Relations with banks	**5**	**16**	**-11**	**-68.8**
Differentials on hedging derivatives	**-178**	**-165**	**13**	**7.9**
Non-performing assets	**190**	**223**	**-33**	**-14.8**
Other net interest income	**52**	**19**	**33**	
Net interest income	**1,747**	**1,756**	**-9**	**-0.5**

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

Quarterly development
Net interest income
(millions of euro)



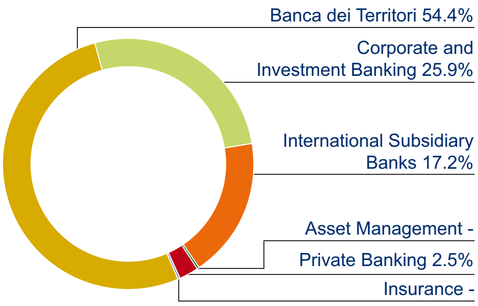
Net interest income of 1,747 million euro declined by 0.5% on the same period of the previous year. In a market environment of interest rates still well into negative territory, performance was conditioned by lower interest on non-performing assets due to the gradual reduction of NPLs and the more limited contribution of hedging of core deposits, included in differentials on hedging derivatives. In contrast, customer dealing amounted to 1,376 million euro, up by 3.2%, driven by the decrease in the cost of funding in the form of securities issued, whereas financial assets of 302 million euro declined by 8.5%. Net interest income on relations with banks fell to 5 million euro from 16 million euro in the first three months of 2019, driven by the decline in amounts due from banks.
The net interest income flow recorded in the first quarter of 2020 is in line with the values recorded in the quarters of 2019.

(millions of euro)

	31.03.2020	31.03.2019	Changes amount	Changes %
Banca dei Territori	1,046	1,037	9	0.9
Corporate and Investment Banking	497	457	40	8.8
International Subsidiary Banks	331	338	-7	-2.1
Private Banking	48	44	4	9.1
Asset Management	-	-	-	-
Insurance	-	-	-	-
Total business areas	**1,922**	**1,876**	**46**	**2.5**
Corporate Centre	-175	-120	55	45.8
Intesa Sanpaolo Group	**1,747**	**1,756**	**-9**	**-0.5**

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 54.4% of operating business area results, recorded a slight increase in net interest income (+0.9% or +9 million euro). The net interest income of the Corporate and Investment Banking Division also recorded an increase (+8.8%, or +40 million euro) attributable to the greater contribution from loans to customers and the sound performance of the securities portfolio. By contrast, net interest income decreased moderately for the International Subsidiary Banks (-2.1% or -7 million euro). The Private Banking Division, which in relative terms has a lesser impact on the consolidated accounts, increased its contribution to net interest income by 4 million euro. The increase in the net interest expense of the Corporate Centre was mostly attributable to the greater cost of excess liquidity in view of the decrease in short-term market rates, which remained in negative territory.

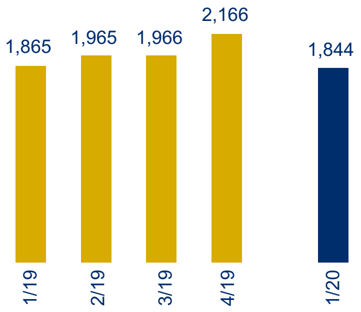
Net fee and commission income

(millions of euro)

	31.03.2020			31.03.2019			Changes	
	Income	Expense	Net	Income	Expense	Net	amount	%
Guarantees given / received	91	-41	50	84	-29	55	-5	-9.1
Collection and payment services	141	-36	105	164	-54	110	-5	-4.5
Current accounts	293	-	293	308	-	308	-15	-4.9
Credit and debit cards	134	-71	63	144	-70	74	-11	-14.9
Commercial banking activities	**659**	**-148**	**511**	**700**	**-153**	**547**	**-36**	**-6.6**
Dealing and placement of securities	237	-52	185	233	-53	180	5	2.8
Currency dealing	13	-1	12	13	-1	12	-	-
Portfolio management	738	-188	550	722	-180	542	8	1.5
Distribution of insurance products	344	-	344	326	-	326	18	5.5
Other	75	-13	62	73	-11	62	-	-
Management, dealing and consultancy activities	**1,407**	**-254**	**1,153**	**1,367**	**-245**	**1,122**	**31**	**2.8**
Other net fee and commission income	**234**	**-54**	**180**	**241**	**-45**	**196**	**-16**	**-8.2**
Net fee and commission income	**2,300**	**-456**	**1,844**	**2,308**	**-443**	**1,865**	**-21**	**-1.1**

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

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



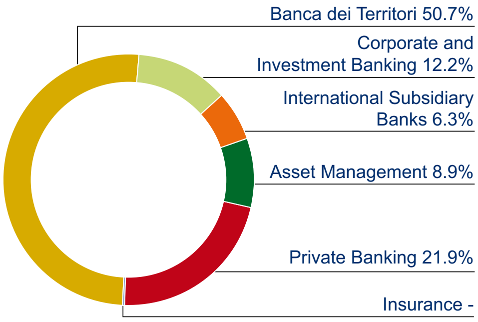
The net fee and commission income recorded in the first three months of 2020, which accounts for 38% of operating income, amounted to 1,844 million euro, down by 1.1% (-21 million euro) on the figure for the first quarter of 2019, driven by a decline both in commercial banking activity (-6.6% or -36 million euro), with more marked decreases in current accounts and ATM services and credit cards, and in other net fee and commission income (-8.2% or -16 million euro), due to the lesser revenues on factoring transactions and an increase in fee and commission expense. These reductions were only partially offset by management, dealing and financial consultancy activities (+2.8% or +31 million euro): in particular, there were increases in fee and commission income on the distribution of insurance products (+5.5%), individual and collective portfolio management schemes (+1.5%) and the dealing and placement of securities (+2.8%), despite the financial market collapse in March.
Fee and commission income in the first quarter of 2020 was lower than in the quarters of 2019, and above all than in the last three.

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Banca dei Territori	990	1,018	-28	-2.8
Corporate and Investment Banking	239	216	23	10.6
International Subsidiary Banks	123	128	-5	-3.9
Private Banking	427	424	3	0.7
Asset Management	174	167	7	4.2
Insurance	-	-	-	-
Total business areas	**1,953**	**1,953**	**-**	**-**
Corporate Centre	-109	-88	21	23.9
Intesa Sanpaolo Group	**1,844**	**1,865**	**-21**	**-1.1**

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 approximately half of the fee and commission income of the business units, recorded a decrease (-2.8%, or -28 million euro) in fee and commission income, specifically that deriving from commercial banking and the placement of bonds and certificates. Corporate and Investment Banking recorded growth (+10.6% or +23 million euro), mainly due to the performance of the commercial banking and investment banking segments. As a result of the stability of the average assets under management, fee and commission income also increased for Asset Management (+4.2% or +7 million euro) and Private Banking (+0.7% or +3 million euro). By contrast, International Subsidiary Banks recorded a decline (-3.9% or -5 million euro). The increase in the net fee and commission expense of the Corporate Centre was mainly due to the increase in guarantees received on credit risk hedging transactions.

Income from insurance business

(millions of euro)

Captions (a)	31.03.2020			31.03.2019			Changes	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**106**	**56**	**162**	**28**	**32**	**60**	**102**	
Net insurance premiums (b)	2,317	154	2,471	2,390	115	2,505	-34	-1.4
Net charges for insurance claims and surrenders (c)	-1,665	-46	-1,711	-1,851	-37	-1,888	-177	-9.4
Net charges for changes in technical reserves (d)	-331	-1	-332	-1,033	-	-1,033	-701	-67.9
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	-221	-	-221	565	-	565	-786	
Net fees on investment contracts (f)	29	-	29	97	-	97	-68	-70.1
Commission expenses on insurance contracts (g)	-128	-38	-166	-134	-33	-167	-1	-0.6
Other technical income and expense (h)	105	-13	92	-6	-13	-19	111	
Net investment result	**122**	**2**	**124**	**204**	**2**	**206**	**-82**	**-39.8**
Operating income from investments	-6,903	2	-6,901	3,097	2	3,099	-10,000	
Net interest income	*402*	*1*	*403*	*422*	*1*	*423*	*-20*	*-4.7*
Dividends	*54*	*-*	*54*	*54*	*1*	*55*	*-1*	*-1.8*
Gains/losses on disposal	*-489*	*1*	*-488*	*311*	*-*	*311*	*-799*	
Valuation gains/losses	*-6,849*	*-*	*-6,849*	*2,328*	*-*	*2,328*	*-9,177*	
Portfolio management fees paid (i)	*-21*	*-*	*-21*	*-18*	*-*	*-18*	*3*	*16.7*
Gains (losses) on investments pertaining to insured parties	7,025	-	7,025	-2,893	-	-2,893	9,918	
Insurance products (j)	*203*	*-*	*203*	*-594*	*-*	*-594*	*797*	
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*18*	*-*	*18*	*10*	*-*	*10*	*8*	*80.0*
Investment products (l)	*6,804*	*-*	*6,804*	*-2,309*	*-*	*-2,309*	*9,113*	
Income from insurance business gross of consolidation effects	**228**	**58**	**286**	**232**	**34**	**266**	**20**	**7.5**
Consolidation effects	26	-	26	25	-	25	1	4.0
Income from insurance business	**254**	**58**	**312**	**257**	**34**	**291**	**21**	**7.2**

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.

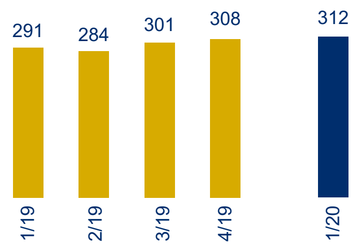
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

(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)



In the first quarter of 2020, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was up 7.2% on the first three months of 2019 to 312 million euro. The decrease in the net investment result of the life business, driven by the decline in operating income from investments, net of the part attributable to policyholders, was amply offset by the growth of the technical margin of both the life and the non-life businesses.
In the first quarter of 2020, income from insurance business, including both the life and non-life businesses, increased progressively on the previous quarters.

(millions of euro)

	31.03.2020				31.03.2019
	Periodic premiums	Single premiums	Total	*of which new business*	
Life insurance business	**63**	**2,255**	**2,318**	***2,255***	**2,390**
Premiums issued on traditional products	32	2,016	2,048	*2,016*	2,220
Premiums issued on unit-linked products	29	85	114	*85*	2
Premiums issued on capitalisation products	-	-	-	-	-
Premiums issued on pension funds	2	154	156	*154*	168
Non-life insurance business	**93**	**70**	**163**	***28***	**121**
Premiums issued	102	77	179	*89*	157
Change in premium reserves	-9	-7	-16	*-61*	-36
Premiums ceded to reinsurers	**-3**	**-7**	**-10**	***-5***	**-6**
Net premiums from insurance products	**153**	**2,318**	**2,471**	***2,278***	**2,505**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	22	1,679	1,701	*1,682*	1,414
Total business from investment contracts	**22**	**1,679**	**1,701**	***1,682***	**1,414**
Total business	**175**	**3,997**	**4,172**	***3,960***	**3,919**

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

Business in the insurance segment of 4.2 billion euro exceeded the 3.9 billion euro recorded in the same period in 2019. The increase in class III policies of a primarily financial nature, which amounted to 1.7 billion euro, more than offset the decline in traditional life business policies, which amounted to 2 billion euro, down on the first quarter of 2019. Growth of the non-life business continued, with new business in the first three months of 2020 reaching 163 million euro, whereas pension fund business declined slightly.
New business was nearly 4 billion euro, around the total premium inflows of the Group's insurance companies, which relate mostly to new single-premium contracts.

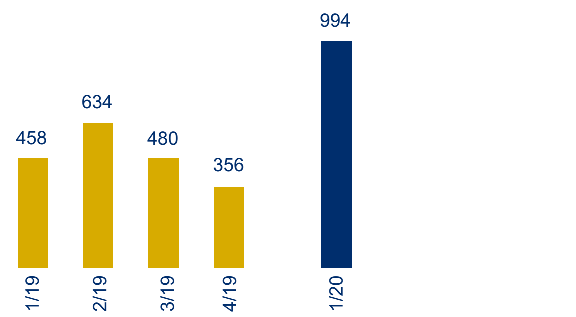
Profits (Losses) on financial assets and liabilities designated at fair value

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Interest rates	199	-75	274	
Equity instruments	2	87	-85	-97.7
Currencies	31	39	-8	-20.5
Structured credit products	-38	16	-54	
Credit derivatives	278	6	272	
Commodity derivatives	7	3	4	
Income from operations on assets designated at fair value through profit or loss	**479**	**76**	**403**	
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	515	382	133	34.8
Profits (Losses) on financial assets and liabilities designated at fair value	**994**	**458**	**536**	

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 994 million euro in the first three months of 2020, more than twice the 458 million euro in the first quarter of 2019.
The main driver was Income from operations on instruments designated at fair value through profit or loss (+403 million euro), reflecting the valuation effects due to the debt value adjustment (DVA) correlated to the liabilities in the form of certificates. The figure relating to interest rates – which in addition to incorporating the aforementioned positive DVA component includes the profit (loss) on securities trading operations – should be read in conjunction with the figure relating to credit derivatives, which reflects the positive results of the related hedging strategies. There was also an increase in the contribution provided by profits (losses) on disposal or repurchase of assets measured at fair value through other comprehensive income and financial liabilities (+133 million euro), which benefited in particular from the transactions affecting the portfolio, resulting in capital gains on OCI (other comprehensive income) securities in particular. This result is attributable to integrated management of the portfolios attributable to Banca IMI, which took advantage of a particular conflicted, volatile market, structurally increasing its contribution to the Group’s revenues.
The value in the first quarter of 2020 was particularly high when compared to the quarters of 2019 and is unlikely to recur in the remainder of the year.

Other operating income (expenses)

Other net operating expenses of 15 million euro are compared with the 1 million euro recorded in the first quarter of 2019. This caption includes both sundry operating income and expenses – including those of subsidiaries not subject to management and coordination operating in sectors completely distinct from banking and finance – and profits on investments carried at equity. The increase on the figure for the same period of 2019 was due solely to the former component.

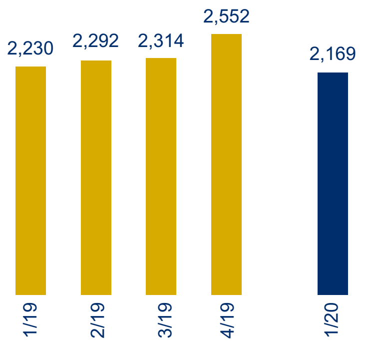
Operating costs

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Wages and salaries	930	948	-18	-1.9
Social security charges	239	246	-7	-2.8
Other	186	193	-7	-3.6
Personnel expenses	**1,355**	**1,387**	**-32**	**-2.3**
Information technology expenses	165	166	-1	-0.6
Management of real estate assets expenses	71	74	-3	-4.1
General structure costs	90	90	-	-
Professional and legal expenses	54	56	-2	-3.6
Advertising and promotional expenses	21	20	1	5.0
Indirect personnel costs	13	20	-7	-35.0
Other costs	117	125	-8	-6.4
Indirect taxes and duties	217	223	-6	-2.7
Recovery of expenses and charges	-198	-191	7	3.7
Administrative expenses	**550**	**583**	**-33**	**-5.7**
Property and equipment	122	130	-8	-6.2
Intangible assets	142	130	12	9.2
Adjustments	**264**	**260**	**4**	**1.5**
Operating costs	**2,169**	**2,230**	**-61**	**-2.7**

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

Quarterly development
Operating costs
(millions of euro)



Operating costs amounted to 2,169 million euro in the first three months of 2020, a decrease of 2.7% on the first quarter of 2019.

Personnel expenses amounted to 1,355 million euro, down by 2.3%, driven by downsizing at the level of average headcount, the savings from which were more than enough to offset the cost increase relating to the effects of the renewal of the National Collective Bargaining Agreement.

Administrative expenses of 550 million euro (-5.7%) registered savings across nearly all components, including indirect personnel costs.

Depreciation and amortisation of property and equipment and intangible assets, which in accordance with IFRS 16 also include the share relating to rights of use acquired under operating leases, were slightly higher (+1.5%) than in the first three months of 2019.

The cost/income ratio decreased to 44.4% from 51% in the first quarter of 2019 due to robust revenue growth and careful cost management.

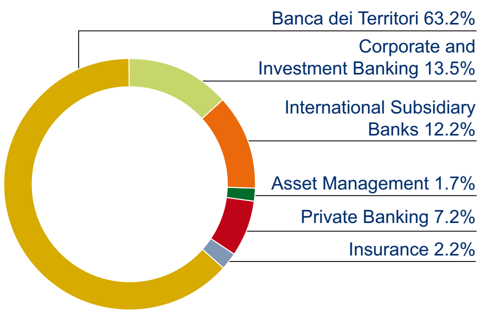
Excluding the customary seasonal effects, cost performance improved constantly: the figures for the first quarter of 2020 are lower than those for all quarters of the previous year.

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Banca dei Territori	1,236	1,285	-49	-3.8
Corporate and Investment Banking	265	274	-9	-3.3
International Subsidiary Banks	239	238	1	0.4
Private Banking	141	148	-7	-4.7
Asset Management	33	36	-3	-8.3
Insurance	44	45	-1	-2.2
Total business areas	**1,958**	**2,026**	**-68**	**-3.4**
Corporate Centre	211	204	7	3.4
Intesa Sanpaolo Group	**2,169**	**2,230**	**-61**	**-2.7**

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 approximately 63% of all costs for the business areas, reported savings compared to the first three months of 2019 (-3.8%, or -49 million euro) thanks to lower personnel expenses, attributable to a reduction in the average workforce, and lower administrative expenses. There were also declines in Corporate and Investment Banking (-3.3%, or -9 million euro) and in Asset Management (-8.3%, or -3 million euro), due to lower personnel and administrative expenses, as well as in Private Banking (-4.7%, or -7 million euro), due to the reduction in personnel expenses.

Insurance costs decreased slightly (-2.2%), whereas those of the International Subsidiary Banks were stable (+0.4%).

Operating margin

The operating margin amounted to 2,713 million euro, an increase of 26.8% or +574 million euro on the first three months of 2019, driven by the increase in operating income and the decrease in operating costs.

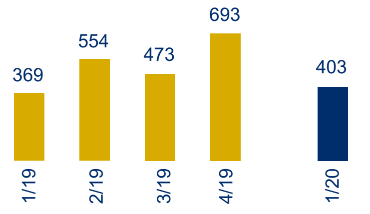
Net adjustments to loans

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Bad loans	-184	-163	21	12.9
Unlikely to pay	-196	-256	-60	-23.4
Past due loans	-64	-84	-20	-23.8
Stage 3 loans	**-444**	**-503**	**-59**	**-11.7**
of which debt securities	-	-	-	-
Stage 2 loans	**10**	**-35**	**45**	
of which debt securities	*5*	*-3*	*8*	
Stage 1 loans	**31**	**139**	**-108**	**-77.7**
of which debt securities	-	-	-	-
Net losses/recoveries on impairment of loans	**-403**	**-399**	**4**	**1.0**
Profits/losses from changes in contracts without derecognition	**-4**	**-1**	**3**	
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**4**	**31**	**-27**	**-87.1**
Net adjustments to loans	**-403**	**-369**	**34**	**9.2**

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 quarter of 2020, adjustments to loans came to 403 million euro, compared to the 369 million euro recorded in the same period of the previous year. The 9.2% increase was driven by lower recoveries on loans in Stage 1 (-108 million euro) and commitments and guarantees given (-27 million euro), partially offset by recoveries on loans in Stage 2, compared with adjustments in the first three months of 2019 (+45 million euro), and lower adjustments on non-performing loans in Stage 3 (-59 million euro). This latter category benefited from lower adjustments on unlikely-to-pay exposures (-60 million euro) and on past due loans (-20 million euro) and in presence of higher adjustments on bad loans (+21 million euro). Non-performing loans continued to decline as a percentage of total loans in 2020 due to lower NPL flows; the annualised cost of credit, expressed as the ratio of net adjustments to net loans, amounted to 40 basis points, down further from the December level (53 basis points).
Total coverage of non-performing loans amounted to 53.6%. In further detail, bad loans required total net adjustments of 184 million euro, compared to 163 million euro in the first quarter of 2019, with a coverage ratio of 64.4%. Net impairment losses on unlikely to pay loans, totalling 196 million euro, were down by 23.4%, with a coverage ratio of 38.7%. Net impairment losses on past due loans amounted to 64 million euro, with a coverage ratio of 15.9%. The coverage ratio for forborne positions within the non-performing loans category was 42% at the end of March 2020. Finally, the coverage ratio of performing loans was 0.4%.
For further information on the provision for the COVID-19 epidemic, refer to the discussion provided in the Executive Summary.

The first three months of 2020 saw moderately higher adjustments to loans than those recorded in the same period of 2019, and lower adjustments than in the other quarters of the previous year.

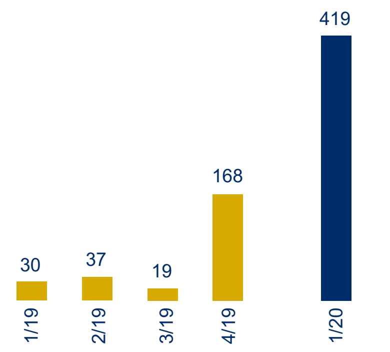
Other net provisions and net impairment losses on other assets

(millions of euro)

	31.03.2020	31.03.2019	Changes	
			amount	%
Other net provisions	-342	-12	330	
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-7	-10	-3	-30.0
Net impairment losses on other assets	-64	-7	57	
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-6	-1	5	
Other net provisions and net impairment losses on other assets	**-419**	**-30**	**389**	

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 measured at amortised cost and at fair value. In the first three months of 2020, other net provisions and net impairment losses on other assets amounted to 419 million euro, compared with the 30 million euro recognised in the first quarter of 2019. The sharp rise recorded in the first quarter was due to provisions for the situation resulting from the COVID-19 epidemic of approximately 300 million euro, accounted for among other net provisions. For further information on this item, refer to the discussion provided in the Executive Summary.
Net of these provisions, the result for the first three months of the year was approximately 100 million euro, higher than the levels of the first three quarters of 2019, but lower than that of the fourth quarter.

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.
During the reporting period, other income amounted to 3 million euro, compared with 6 million euro in the first quarter of 2019.

Income (Loss) from discontinued operations
At the beginning of 2020 this caption amounted to income of 29 million euro, primarily relating to the business unit being sold to Nexi, compared with 19 million euro reported in the first three months of 2019 relating to the same transaction.

Gross income (loss)

In the first quarter of 2020, income before tax from continuing operations came to 1,923 million euro, up 9% compared to the same period of 2019.

Taxes on income

Current and deferred taxes came to 545 million euro for an effective tax rate of 28.3%, similar to the level of the same period of 2019 (29.9%).

Charges (net of tax) for integration and exit incentives

This caption amounted to 15 million euro, compared with 22 million euro reported in the first three months of 2019.

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 quarter of 2020, these expenses came to 26 million euro, compared to the 40 million euro recorded in the same period of 2019.

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

The caption includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In the first three months of 2020, these charges amounted to 191 million euro, higher than the 146 million euro recorded in the same period of 2019, essentially due to the increased charges for resolution funds. The charges recognised during the quarter may be broken down as follows: -171 million euro attributable to resolution funds, -4 million euro to deposit guarantee funds and -16 million euro to charges recognised by international subsidiary banks.

Minority interests

The minority interest share of net losses of companies within the scope of line-by-line consolidation amounted to 5 million euro for the reporting period, compared with 20 million euro in the first quarter of 2019.

Net income (loss)

As a result of the above trends, the Group ended the first quarter of 2020 with net income of 1,151 million euro (approximately 1,360 million euro, gross of the effect of COVID-19), up by 9.6% on the 1,050 million euro recorded in the same period of 2019, due to the increase in revenues, albeit with a greater-than-expected shift in composition Profits (Losses) on financial assets and liabilities designated at fair value, and to the decrease in costs. This performance should be viewed in an even more positive light in view of the environment during the quarter, which in March began to see the first impacts of the COVID-19 crisis and the lockdown imposed by the Italian government to combat the emergency.

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. 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. It should be noted that no restatement of the published comparative balance sheet figures as at 31 December 2019 was necessary.

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	31.03.2020	31.12.2019	Changes	
			amount	%
Due from banks	67,440	47,170	20,270	43.0
Loans to customers	404,900	395,229	*9,671*	*2.4*
Loans to customers measured at amortised cost	*403,626*	*394,093*	*9,533*	*2.4*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,274*	*1,136*	*138*	*12.1*
Financial assets measured at amortised cost which do not constitute loans	29,353	25,888	3,465	13.4
Financial assets at fair value through profit or loss	55,431	48,636	6,795	14.0
Financial assets at fair value through other comprehensive income	71,865	72,046	-181	-0.3
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	158,656	168,202	-9,546	-5.7
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	567	612	-45	-7.4
Investments in associates and companies subject to joint control	1,273	1,240	33	2.7
Property, equipment and intangible assets	16,966	17,153	-187	-1.1
Assets owned	*15,501*	*15,655*	*-154*	*-1.0*
Rights of use acquired under leases	*1,465*	*1,498*	*-33*	*-2.2*
Tax assets	15,983	15,467	516	3.3
Non-current assets held for sale and discontinued operations	765	494	271	54.9
Other assets	24,702	23,965	737	3.1
Total Assets	**847,901**	**816,102**	**31,799**	**3.9**

(millions of euro)

Liabilities	31.03.2020	31.12.2019	Changes	
			amount	%
Due to banks at amortised cost	120,110	103,316	16,794	16.3
Due to customers at amortised cost and securities issued	424,533	414,578	9,955	2.4
Financial liabilities held for trading	54,376	45,226	9,150	20.2
Financial liabilities designated at fair value	762	4	758	
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	818	818	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,822	75,935	-7,113	-9.4
Tax liabilities	2,580	2,321	259	11.2
Liabilities associated with non-current assets held for sale and discontinued operations	50	41	9	22.0
Other liabilities	27,028	23,381	3,647	15.6
of which lease payables	*1,469*	*1,496*	*-27*	*-1.8*
Technical reserves	86,939	89,136	-2,197	-2.5
Allowances for risks and charges	5,134	5,131	3	0.1
of which allowances for commitments and financial guarantees given	*477*	*482*	*-5*	*-1.0*
Share capital	9,086	9,086	-	-
Reserves	42,380	38,250	4,130	10.8
Valuation reserves	-1,833	-157	1,676	
Valuation reserves pertaining to insurance companies	182	504	-322	-63.9
Equity instruments	5,550	4,103	1,447	35.3
Minority interests	233	247	-14	-5.7
Net income (loss)	1,151	4,182	-3,031	-72.5
Total liabilities and shareholders' equity	**847,901**	**816,102**	**31,799**	**3.9**

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	2020	2019			
	31/3	31/12	30/9	30/6	31/3
Due from banks	67,440	47,170	71,958	77,141	85,515
Loans to customers	404,900	395,229	395,193	394,253	395,595
Loans to customers measured at amortised cost	*403,626*	*394,093*	*394,289*	*393,243*	*394,990*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,274*	*1,136*	*904*	*1,010*	*605*
Financial assets measured at amortised cost which do not constitute loans	29,353	25,888	24,104	20,396	19,995
Financial assets at fair value through profit or loss	55,431	48,636	54,542	52,693	47,626
Financial assets at fair value through other comprehensive income	71,865	72,046	75,052	65,996	66,406
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	158,656	168,202	167,034	159,171	155,240
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	567	612	570	568	702
Investments in associates and companies subject to joint control	1,273	1,240	1,113	1,071	1,075
Property, equipment and intangible assets	16,966	17,153	16,953	16,959	16,963
Assets owned	*15,501*	*15,655*	*15,411*	*15,389*	*15,381*
Rights of use acquired under leases	*1,465*	*1,498*	*1,542*	*1,570*	*1,582*
Tax assets	15,983	15,467	15,556	16,122	16,858
Non-current assets held for sale and discontinued operations	765	494	2,554	803	1,236
Other assets	24,702	23,965	24,137	23,238	22,114
Total Assets	**847,901**	**816,102**	**848,766**	**828,411**	**829,325**

Liabilities and Shareholders' Equity	2020	2019			
	31/3	31/12	30/9	30/6	31/3
Due to banks at amortised cost	120,110	103,316	119,509	120,232	123,326
Due to customers at amortised cost and securities issued	424,533	414,578	415,128	411,588	416,505
Financial liabilities held for trading	54,376	45,226	53,938	51,187	48,433
Financial liabilities designated at fair value	762	4	4	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	818	818	879	847	846
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,822	75,935	74,405	72,027	70,955
Tax liabilities	2,580	2,321	2,519	2,014	2,633
Liabilities associated with non-current assets held for sale and discontinued operations	50	41	256	254	260
Other liabilities	27,028	23,381	32,236	26,483	22,675
of which lease payables	*1,469*	*1,496*	*1,523*	*1,547*	*1,553*
Technical reserves	86,939	89,136	89,237	84,710	82,508
Allowances for risks and charges	5,134	5,131	5,164	5,260	5,694
of which allowances for commitments and financial guarantees given	*477*	*482*	*423*	*450*	*449*
Share capital	9,086	9,086	9,086	9,086	9,085
Reserves	42,380	38,250	38,197	38,232	41,704
Valuation reserves	-1,833	-157	-194	-474	-877
Valuation reserves pertaining to insurance companies	182	504	727	322	137
Equity instruments	5,550	4,103	4,103	4,103	4,103
Minority interests	233	247	262	270	284
Net income (loss)	1,151	4,182	3,310	2,266	1,050
Total Liabilities and Shareholders' Equity	**847,901**	**816,102**	**848,766**	**828,411**	**829,325**

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

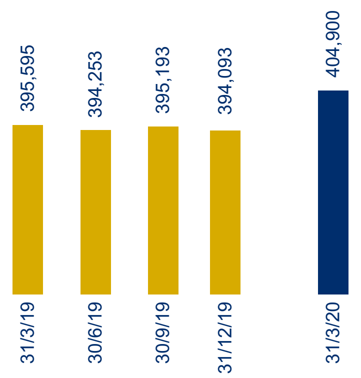
(millions of euro)

	31.03.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	20,198	5.0	20,455	5.1	-257	-1.3
Mortgages	180,171	44.5	176,640	44.7	3,531	2.0
Advances and other loans	159,626	39.4	148,540	37.6	11,086	7.5
Commercial banking loans	**359,995**	**88.9**	**345,635**	**87.4**	**14,360**	**4.2**
Repurchase agreements	**24,850**	**6.1**	**29,531**	**7.5**	**-4,681**	**-15.9**
Loans represented by securities	**6,054**	**1.5**	**5,841**	**1.5**	**213**	**3.6**
Non-performing loans	**14,001**	**3.5**	**14,222**	**3.6**	**-221**	**-1.6**
Loans to customers	**404,900**	**100.0**	**395,229**	**100.0**	**9,671**	**2.4**

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

The Group's loans to customers exceeded 405 billion euro as at 31 March 2020, marking a year-to-date increase of 9.7 billion euro, or +2.4%. The growth of the aggregate was due to commercial banking loans (+14.4 billion euro, or +4.2%), and in particular to the growth of loans and advances (+11.1 billion euro, or +7.5%) and mortgage loans (+3.5 billion euro, or +2%), whereas current accounts decreased moderately (-0.3 billion euro, or -1.3%). The performance of loans to customers was also affected by the decline in repurchase agreements (-4.7 billion euro) and, to a lesser extent, non-performing loans (-0.2 billion euro), against the slight growth of loans represented by securities (+0.2 billion euro).
In the domestic medium-/long-term loan market, disbursements to households in the first quarter of 2020 (including the small business accounts having similar needs to family businesses) amounted to 4.7 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 3 billion euro. During the period, medium/long-term disbursements to customers of the Corporate Division amounted to 6.2 billion euro. Disbursements within Italy amounted to approximately 14 billion euro. If the activities of the international subsidiary banks are included, the Group's medium/long-term disbursements reached 16.6 billion euro in the first quarter of 2020.
As at 31 March 2020, the Group's share of the Italian domestic market was estimated at 17% 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 March are not yet available.

Quarterly development
Loans to customers
(millions of euro)

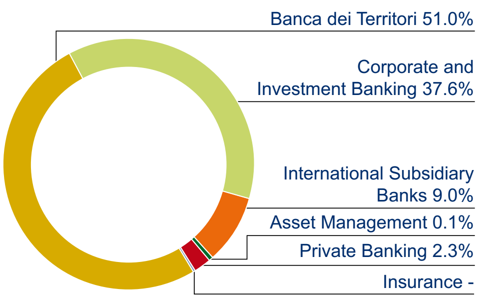


(millions of euro)

	31.03.2020	31.12.2019	Changes	
			amount	%
Banca dei Territori	195,422	194,358	1,064	0.5
Corporate and Investment Banking	144,314	131,884	12,430	9.4
International Subsidiary Banks	34,460	34,038	422	1.2
Private Banking	9,005	9,329	-324	-3.5
Asset Management	224	435	-211	-48.5
Insurance	-	-	-	-
Total business areas	**383,425**	**370,044**	**13,381**	**3.6**
Corporate Centre	21,475	25,185	-3,710	-14.7
Intesa Sanpaolo Group	**404,900**	**395,229**	**9,671**	**2.4**

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

Business areas
Loans to customers



In the analysis of loans by business area, the Banca dei Territori Division, which accounts for approximately one-half of the aggregate of the Group's business areas, recorded an increase of 1.1 billion euro year-to-date (+0.5%), due mainly to medium-/long-term loans to private individuals and retail businesses. The strongest growth trend was at the level of the Corporate and Investment Banking Division (+12.4 billion euro or +9.4%), essentially due to the business of the structured finance and global markets segments with global corporate and financial institutions customers. The loans of the International Subsidiary Banks Division grew slightly (+0.4 billion euro, or +1.2%) specifically due to the increase in the loans issued by the subsidiaries operating in Slovakia, Egypt, Serbia and Croatia. Turning to the other divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division, primarily short-term loans, decreased (-3.5%), due above all to the effect of the decline in repurchase agreements with institutional customers.

The decline at the level of the Corporate Centre is essentially attributable to loans to institutional counterparties.

Loans to customers: credit quality

(millions of euro)

	31.03.2020		31.12.2019		Change
	Net exposure	% breakdown	Net exposure	% breakdown	Net exposure
Bad loans	6,558	1.6	6,740	1.7	-182
Unlikely to pay	6,639	1.7	6,738	1.7	-99
Past due loans	804	0.2	744	0.2	60
Non-Performing Loans	**14,001**	**3.5**	**14,222**	**3.6**	**-221**
Non-performing loans in Stage 3 (subject to impairment)	*13,972*	*3.5*	*14,195*	*3.6*	*-223*
Non-performing loans measured at fair value through profit or loss	*29*	*-*	*27*	*-*	*2*
Performing loans	**384,822**	**95.0**	**375,142**	**94.9**	**9,680**
Stage 2	*42,144*	*10.4*	*40,078*	*10.1*	*2,066*
Stage 1	*341,869*	*84.4*	*334,344*	*84.6*	*7,525*
Performing loans measured at fair value through profit or loss	*809*	*0.2*	*720*	*0.2*	*89*
Performing loans represented by securities	**6,054**	**1.5**	**5,841**	**1.5**	**213**
Stage 2	*3,096*	*0.8*	*2,942*	*0.8*	*154*
Stage 1	*2,958*	*0.7*	*2,899*	*0.7*	*59*
Loans held for trading	**23**	**-**	**24**	**-**	**-1**
Total loans to customers	**404,900**	**100.0**	**395,229**	**100.0**	**9,671**
of which forborne performing	***5,432***		***5,663***		***-231***
of which forborne non-performing	***3,885***		***4,038***		***-153***
Loans to customers classified as discontinued operations (*)	**649**		**382**		**267**

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

(*) As at 31 March 2020, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 470 million euro, total adjustments of 102 million euro, net exposure of 368 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 327 million euro, total adjustments of 46 million euro, net exposure of 281 million euro).

As at 31 March 2020, the Group’s net non-performing loans amounted to 14 billion euro, down by 1.6% compared with the beginning of the year, continuing the progressive decline already seen in the previous year. Non-performing assets also decreased as a percentage of total net loans to customers, down to 3.5%, in line with the de-risking strategy set out in the Business Plan, while the coverage ratio for non-performing loans remained high (53.6%).

In further detail, at the end of March 2020 bad loans came to 6.6 billion euro net of adjustments (down by -182 million euro on the beginning of the year, or -2.7%), and represented 1.6% of total loans. During the same period, the coverage ratio came to 64.4%. Loans included in the unlikely-to-pay category amounted to 6.6 billion euro, down by 1.5%, accounting for 1.7% of total loans to customers, with a coverage ratio of 38.7%. Past due loans amounted to 804 million euro (+8.1%), with a coverage ratio of 15.9%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 3.9 billion euro, with a coverage ratio of 42%, while forborne exposures in the performing loans category amounted to 5.4 billion euro.
Overall, the coverage ratio of performing loans amounted to 0.4%.
For further information on the provision for the COVID-19 epidemic, please refer to the discussion provided in the Executive Summary.

Other banking business financial assets and liabilities: breakdown

(millions of euro)

Type of financial instruments	Financial assets designated at fair value through profit or loss	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					
31.03.2020	14,604	58,228	15,463	**88,295**	X
31.12.2019	12,510	57,750	12,249	**82,509**	X
Changes amount	2,094	478	3,214	**5,786**	
Changes %	16.7	0.8	26.2	**7.0**	
Other debt securities					
31.03.2020	4,728	10,974	13,890	**29,592**	X
31.12.2019	5,739	11,237	13,639	**30,615**	X
Changes amount	-1,011	-263	251	**-1,023**	
Changes %	-17.6	-2.3	1.8	**-3.3**	
Equities					
31.03.2020	763	2,663	X	**3,426**	X
31.12.2019	989	3,059	X	**4,048**	X
Changes amount	-226	-396	X	**-622**	
Changes %	-22.9	-12.9	X	**-15.4**	
Quotas of UCI					
31.03.2020	3,153	X	X	**3,153**	X
31.12.2019	2,996	X	X	**2,996**	X
Changes amount	157	X	X	**157**	
Changes %	5.2	X	X	**5.2**	
Due to banks and to customers					
31.03.2020	X	X	X	X	-11,464
31.12.2019	X	X	X	X	-7,068
Changes amount	X	X	X	X	4,396
Changes %	X	X	X	X	62.20
Financial derivatives					
31.03.2020	30,699	X	X	**30,699**	-33,058
31.12.2019	25,475	X	X	**25,475**	-26,161
Changes amount	5,224	X	X	**5,224**	6,897
Changes %	20.5	X	X	**20.5**	26.4
Credit derivatives					
31.03.2020	1,484	X	X	**1,484**	-1,531
31.12.2019	927	X	X	**927**	-1,067
Changes amount	557	X	X	**557**	464
Changes %	60.1	X	X	**60.1**	43.5
TOTAL 31.03.2020	**55,431**	**71,865**	**29,353**	**156,649**	**-46,053**
TOTAL 31.12.2019	**48,636**	**72,046**	**25,888**	**146,570**	**-34,296**
Changes amount	**6,795**	**-181**	**3,465**	**10,079**	**11,757**
Changes %	**14.0**	**-0.3**	**13.4**	**6.9**	**34.3**

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 157 billion euro, up by 6.9% compared with the end of 2019, whereas financial liabilities held for trading came to 46 billion euro, up by 34.3%.
The increase in total financial assets was chiefly due to government debt securities (+5.8 billion euro, or +7%) and financial derivatives (+5.2 billion euro, or +20.5%).

Financial assets measured at fair value through profit or loss amounted to approximately 55 billion euro, marking an increase (+6.8 billion euro, or +14%) largely due to financial derivatives (+5.2 billion euro) and government debt securities (+2.1 billion euro), which more than offset the decline in other debt securities (-1 billion euro).

Financial assets measured at fair value through other comprehensive income amounted to approximately 72 billion euro, almost entirely classified to Stage 1, and were essentially stable (-0.3%) year-to-date.

Instruments measured at amortised cost which do not constitute loans amounted to approximately 29 billion euro, up by 13.4% due to the growth of 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	Financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL
Stage 1			
31.03.2020	68,231	24,941	**93,172**
31.12.2019	66,400	21,472	**87,872**
Changes amount	1,831	3,469	**5,300**
Changes %	2.8	16.2	**6.0**
Stage 2			
31.03.2020	971	4,399	**5,370**
31.12.2019	2,587	4,403	**6,990**
Changes amount	-1,616	-4	**-1,620**
Changes %	-62.5	-0.1	**-23.2**
Stage 3			
31.03.2020	-	13	**13**
31.12.2019	-	13	**13**
Changes amount	-	-	**-**
Changes %	-	-	**-**
TOTAL 31.03.2020	**69,202**	**29,353**	**98,555**
TOTAL 31.12.2019	**68,987**	**25,888**	**94,875**
Changes amount	**215**	**3,465**	**3,680**
Changes %	**0.3**	**13.4**	**3.9**

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

Customer financial assets

(millions of euro)

	31.03.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	433,618	47.2	425,512	44.3	8,106	1.9
Direct deposits from insurance business and technical reserves	156,454	17.0	165,838	17.3	-9,384	-5.7
Indirect customer deposits	485,168	52.7	534,349	55.6	-49,181	-9.2
Netting (a)	-155,638	-16.9	-165,022	-17.2	-9,384	-5.7
Customer financial assets	**919,602**	**100.0**	**960,677**	**100.0**	**-41,075**	**-4.3**

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

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

At 31 March 2020, customer financial assets stood at 920 billion euro (-4.3%), reflecting a reversal that manifested itself abruptly in March, owing, above all, to the effect of the depreciation driven by financial market performance following the lockdown imposed by the pandemic emergency, affecting indirect customer deposits, which contracted by 49.2 billion euro, and direct deposits from insurance business, which fell by 9.4 billion euro. By contrast, direct deposits from banking business increased by 8.1 billion euro, or +1.9% year-to-date, continuing the trend observed in the previous year.

Direct deposits from banking business

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

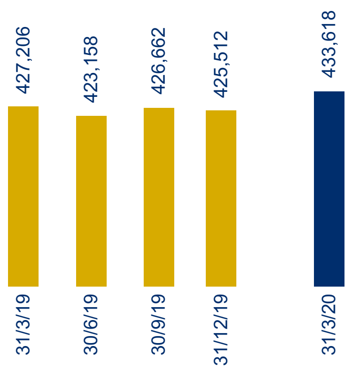
(millions of euro)

	31.03.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	319,411	73.7	316,810	74.4	2,601	0.8
Repurchase agreements and securities lending	13,636	3.1	4,505	1.1	9,131	
Bonds	60,919	14.1	65,485	15.4	-4,566	-7.0
Certificates of deposit	4,869	1.1	4,574	1.1	295	6.4
Subordinated liabilities	9,615	2.2	9,308	2.2	307	3.3
Other deposits	25,168	5.8	24,830	5.8	338	1.4
of which designated at fair value (*)	*9,085*	*2.1*	*10,934*	*2.6*	*-1,849*	*-16.9*
Direct deposits from banking business	**433,618**	**100.0**	**425,512**	**100.0**	**8,106**	**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 e Financial liabilities designated at fair value.

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



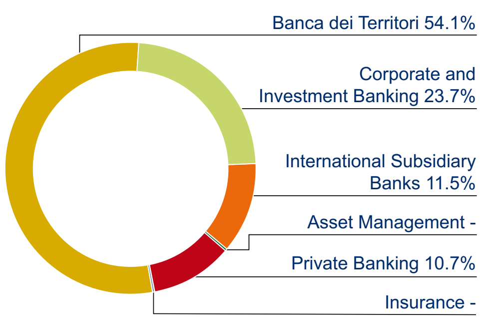
Direct deposits from banking business came to 434 billion euro, up by 1.9% on the beginning of the year due to the positive performance of almost all technical forms.
The positive performance was essentially due to the growth of repurchase agreements and securities lending (+9.1 billion euro), largely attributable to institutional counterparties, and of current accounts and deposits (+2.6 billion euro, given the propensity of customers to maintain a high level of liquidity), which offset the downtrend in bonds (-4.6 billion euro) and other funding at fair value, conditioned by the reduction in certificates volumes.
As at 31 March 2020, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18.2%. 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)

	31.03.2020	31.12.2019	Changes	
			amount	%
Banca dei Territori	202,535	199,256	3,279	1.6
Corporate and Investment Banking	88,637	86,850	1,787	2.1
International Subsidiary Banks	42,929	43,420	-491	-1.1
Private Banking	39,871	39,537	334	0.8
Asset Management	8	10	-2	-20.0
Insurance	-	-	-	-
Total business areas	**373,980**	**369,073**	**4,907**	**1.3**
Corporate Centre	59,638	56,439	3,199	5.7
Intesa Sanpaolo Group	**433,618**	**425,512**	**8,106**	**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 54% of the aggregate of the Group's business areas, increased by 3.3 billion euro year-to-date (+1.6%), due to the stability of amounts due to customers, principally owing to the effect of the greater liquidity in deposits by retail customers. The Corporate and Investment Banking Division recorded growth of 1.8 billion euro (+2.1%) due to the development of repurchase agreements, which more than offset the decline in securities issued and certificates of Banca IMI. The International Subsidiary Banks Division reported a slight decrease in funding (-0.5 billion euro, or -1.1%), mainly attributable to the performance of the subsidiaries operating in Hungary, Slovakia and Serbia. The Private Banking Division reported slight growth (+0.3 billion euro, or +0.8%), essentially concentrated in customer current account deposits.
The increase in the Corporate Centre's funding was due in part to the decline in repurchase agreements with central counterparties.

Indirect customer deposits

(millions of euro)

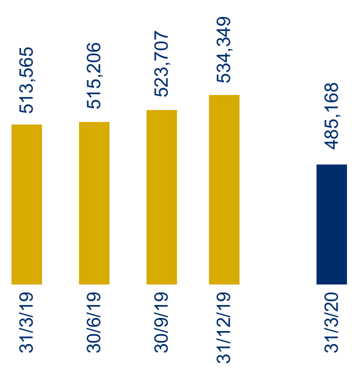
	31.03.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds (a)	111,744	23.0	122,998	23.0	-11,254	-9.1
Open-ended pension funds and individual pension plans	9,810	2.0	10,327	1.9	-517	-5.0
Portfolio management (b)	51,291	10.6	56,484	10.6	-5,193	-9.2
Technical reserves and financial liabilities of the insurance business	145,178	29.9	151,990	28.5	-6,812	-4.5
Relations with institutional customers	15,447	3.2	16,199	3.0	-752	-4.6
Assets under management	**333,470**	**68.7**	**357,998**	**67.0**	**-24,528**	**-6.9**
Assets under administration and in custody	**151,698**	**31.3**	**176,351**	**33.0**	**-24,653**	**-14.0**
Indirect customer deposits	**485,168**	**100.0**	**534,349**	**100.0**	**-49,181**	**-9.2**

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)



At 31 March 2020, the Group's indirect customer deposits were down to 485 billion euro, a decline of 9.2% from 534 billion euro at the end of December 2019.
Assets under management, which account for over two-thirds of the total aggregate, decreased by 24.5 billion euro (-6.9%), spread across all main components: from mutual funds (-9.1%) to portfolio management schemes (-9.2%), pension funds (-5%), technical reserves and insurance financial liabilities (-4.5%) and relations with institutional customers (-4.6%). In the period, the new life business of the life insurance companies of the Intesa Sanpaolo Group, including pension products, amounted to approximately 4 billion euro. Despite resilient net inflows, all products were penalised by the dramatic depreciation of assets under management. However, the decline in assets under management (-6.9%) was much more modest than that in assets under administration (-14%) – essentially represented by securities and third-party products in custody – or that in the FTSE MIB index for the quarter (-27.5%) and the other financial market indices. This was a sign of the active role played by the ISP Group's managers and advisors in supporting the asset allocation choices of the customers who chose to have their wealth professionally managed, according to a rational approach based on risk, return and investment horizon, and in accordance with the MiFID rules.

Net interbank position

The net interbank position as at 31 March 2020 stood at net debt of 52.7 billion euro, down from 56.1 billion euro at the beginning of the year, mainly due to the increase in amounts due from banks. Amounts due to banks, equal to 120 billion euro, include a 68.4-billion-euro exposure to the ECB (of which 53.9 billion euro relating to TLTROs, 7 billion to LTROs and 7.5 billion euro to refinancing operations in dollars).

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

(millions of euro)

Type of financial instruments	Financial assets measured at fair value through profit or loss			Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	TOTAL Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	Financial liabilities pertaining to insurance companies measured at fair value 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						
31.03.2020	119	5,321	56,946	-	**62,386**	X
31.12.2019	120	4,107	57,981	-	**62,208**	X
Changes amount	-1	1,214	-1,035	-	**178**	
Changes %	-0.8	29.6	-1.8	-	**0.3**	
Other debt securities						
31.03.2020	21	710	11,143	-	**11,874**	X
31.12.2019	25	707	12,099	-	**12,831**	X
Changes amount	-4	3	-956		**-957**	
Changes %	-16.0	0.4	-7.9		**-7.5**	
Equities						
31.03.2020	-	1,878	1,338	-	**3,216**	X
31.12.2019	-	2,315	1,480	-	**3,795**	X
Changes amount	-	-437	-142	-	**-579**	
Changes %	-	-18.9	-9.6	-	**-15.3**	
Quotas of UCI						
31.03.2020	154	67,989	11,686	-	**79,829**	X
31.12.2019	165	76,620	11,819	-	**88,604**	X
Changes amount	-11	-8,631	-133	-	**-8,775**	
Changes %	-6.7	-11.3	-1.1	-	**-9.9**	
Due from banks and loans to customers						
31.03.2020	-	915	-	567	**1,482**	X
31.12.2019	-	516	-	612	**1,128**	X
Changes amount	-	399	-	-45	**354**	
Changes %	-	77.3	-	-7.4	**31.4**	
Due to banks						
31.03.2020	X	X	X	X	X	-2 (**)
31.12.2019	X	X	X	X	X	-2 (**)
Changes amount						-
Changes %						-
Financial derivatives						
31.03.2020	435	-	-	-	**435**	-123 (***)
31.12.2019	248	-	-	-	**248**	-49 (***)
Changes amount	187	-	-	-	**187**	74
Changes %	75.4	-	-	-	**75.4**	
Credit derivatives						
31.03.2020	1	-	-	-	**1**	- (***)
31.12.2019	-	-	-	-	**-**	- (***)
Changes amount	1	-	-	-	**1**	-
Changes %	-	-	-	-	**-**	-
TOTAL 31.03.2020	**730**	**76,813**	**81,113**	**567**	**159,223**	**-125**
TOTAL 31.12.2019	**558**	**84,265**	**83,379**	**612**	**168,814**	**-51**
Changes amount	**172**	**-7,452**	**-2,266**	**-45**	**-9,591**	**74**
Changes %	**30.8**	**-8.8**	**-2.7**	**-7.4**	**-5.7**	

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 159 billion euro and 125 million euro, respectively. The decrease in assets (-5.7%) – due to both the designated at fair value and available for sale portfolios – was affected by the depreciation of assets in portfolio driven by market performance.

Direct deposits from insurance business and technical reserves

(millions of euro)

	31.03.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value (*)	**68,699**	**43.9**	**75,886**	**45.7**	**-7,187**	**-9.5**
Index-linked products	-	-	-	-	-	-
Unit-linked products	*68,699*	*43.9*	*75,886*	*45.7*	*-7,187*	*-9.5*
Technical reserves	**86,939**	**55.6**	**89,136**	**53.8**	**-2,197**	**-2.5**
Life business	85,946	55.0	88,169	53.2	-2,223	-2.5
Mathematical reserves	*75,551*	*48.3*	*75,092*	*45.3*	*459*	*0.6*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*6,585*	*4.2*	*6,960*	*4.2*	*-375*	*-5.4*
Other reserves	*3,810*	*2.5*	*6,117*	*3.7*	*-2,307*	*-37.7*
Non-life business	993	0.6	967	0.6	26	2.7
Other insurance deposits (***)	**816**	**0.5**	**816**	**0.5**	**-**	**-**
Direct deposits from insurance business and technical reserves	**156,454**	**100.0**	**165,838**	**100.0**	**-9,384**	**-5.7**

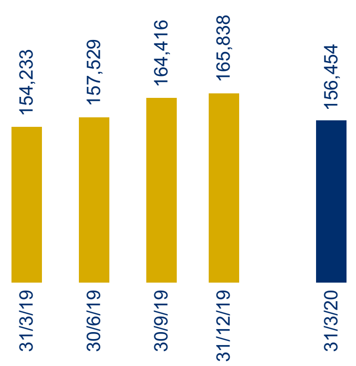
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(*) 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 156 billion euro as at 31 March 2020, down by 5.7% compared with the beginning of the year. Financial liabilities measured at fair value, consisting of unit-linked products, decreased by 7.2 billion euro (-9.5%). Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded a decrease of 2.2 billion euro (-2.5%), mainly attributable to the life business, which accounts for almost all reserves and was adversely affected by the depreciation of customer assets in portfolio.

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

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At 31 March 2020, assets held for sale amounted to 765 million euro, or 715 million euro net of the associated liabilities.
The caption includes the residual 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 for a net exposure of 281 million euro.

SHAREHOLDERS' EQUITY

As at 31 March 2020, the Group's shareholders' equity, including the net income for the period, came to 56,516 million euro compared to the 55,968 million euro at the beginning of the year. The increase is due to the contribution of the net income earned during the first quarter (1,151 million euro) and issued equity instruments (+1.5 billion euro), whereas the valuation reserves of the banking group and those pertaining to insurance companies had a negative impact (approximately -2 billion euro overall).
In compliance with the European Central Bank communication of 27 March 2020 concerning the dividend policy in the situation resulting from the COVID 19 epidemic, the Bank has decided to suspend the proposed cash distribution to shareholders of around 3.4 billion euro and assigned the net income for 2019 to reserves, after attributing 12.5 million euro to the Allowance for charitable, social and cultural contributions.

Valuation reserves

(millions of euro)

	Reserve 31.12.2019	Change of the period	Reserve 31.03.2020
Financial assets designated at fair value through other comprehensive income (debt instruments)	57	-1,464	-1,407
Financial assets designated at fair value through other comprehensive income (equities)	172	-142	30
Property and equipment	1,526	-1	1,525
Cash flow hedges	-882	-23	-905
Foreign exchange differences	-956	-162	-1,118
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	50	50
Actuarial profits (losses) on defined benefit pension plans	-410	65	-345
Portion of the valuation reserves connected with investments carried at equity	28	1	29
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-157**	**-1,676**	**-1,833**
Valuation reserves pertaining to insurance companies	**504**	**-322**	**182**

Valuation reserves decreased, by -1,676 million euro in the banking component and by -322 million euro in the insurance component, respectively, mostly due to the performance of the spread on Italian government bonds, which entailed a decrease in the value of the assets in portfolio.

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	31.03.2020		31.12.2019
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	40,212	42,339	41,542
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,596	5,596	4,096
TIER 1 CAPITAL	**45,808**	**47,935**	**45,638**
Tier 2 capital net of regulatory adjustments	7,903	7,036	7,057
TOTAL OWN FUNDS	**53,711**	**54,971**	**52,695**
Risk-weighted assets			
Credit and counterparty risks	258,489	256,876	258,187
Market and settlement risk	18,701	18,701	18,829
Operational risks	21,212	21,212	21,212
Other specific risks (a)	330	330	296
RISK-WEIGHTED ASSETS	**298,732**	**297,119**	**298,524**
% Capital ratios			
Common Equity Tier 1 capital ratio	13.5%	14.2%	13.9%
Tier 1 capital ratio	15.3%	16.1%	15.3%
Total capital ratio	18.0%	18.5%	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 31 March 2020 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.
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 31 March 2020, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 54,971 million euro, against risk-weighted assets of 297,119 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 53,711 million euro, compared to risk-weighted assets of 298,732 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 30% 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 by 2028.
Capital adequacy ratios as at 31 December 2019 had been calculated considering the income for 2019 net of the component that the Board of Directors, during its session of 25 February 2020, had proposed be allocated to dividends for a total of 3,362 million euro; following the ECB’s Recommendation of 27 March 2020 regarding dividend policies in the situation resulting from the Covid-19 epidemic, on 31 March 2020 Intesa Sanpaolo’s Board of Directors amended the proposal to the Shareholders’ Meeting for the allocation of the net income reported in the Financial Statements as at 31 December 2019, adopting the European Central Bank’s Recommendation not to distribute dividends in view of the economic environment created by the epidemic, and instead proposing that the share of the net income allocated to dividends in the previous resolution dated 25 February 2020 be assigned to reserves. On 27 April 2020, the Shareholders' Meeting approved the assignment of the net income for 2019 to reserves. Accordingly, Common Equity Tier 1 capital at 31 March 2020 includes, among reserves, the entire net income for 2019, less the foreseeable other charges (accrued coupon on Additional Tier 1 instruments and charitable giving).

By contrast, Common Equity Tier 1 Capital takes account of the net income for the first quarter of 2020, net of the related dividends (and other foreseeable charges), in view of Intesa Sanpaolo's intention to confirm the dividend policy set out in the 2018-2021 Business Plan, which envisages a payout ratio of 75% for 2020, subject to the recommendations that will be provided by the ECB regarding dividend distributions after 1 October this year, the end date in the recommendation issued on 27 March.
Common Equity Tier 1 Capital and risk-weighted assets as at 31 March 2020 take account of the impact of the application of the "Danish Compromise" (Art. 49.1 of Regulation (EU) No 575/2013), as per the specific authorisation received from the ECB in 2019, according to which insurance investments are treated as risk-weighted assets instead of being deducted from capital.
On the basis of the foregoing, solvency ratios as at 31 March 2020, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.2%, a Tier 1 capital ratio of 16.1% and a total capital ratio of 18.5%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 March 2020 were as follows: a Common Equity ratio of 13.5%, a Tier 1 capital ratio of 15.3% and a total capital ratio of 18.0%.
Finally, it should be noted that on 26 November 2019 Intesa Sanpaolo disclosed that it had received the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 January 2020, 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 8.46% under the transitional arrangements for 2020 and 8.65% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

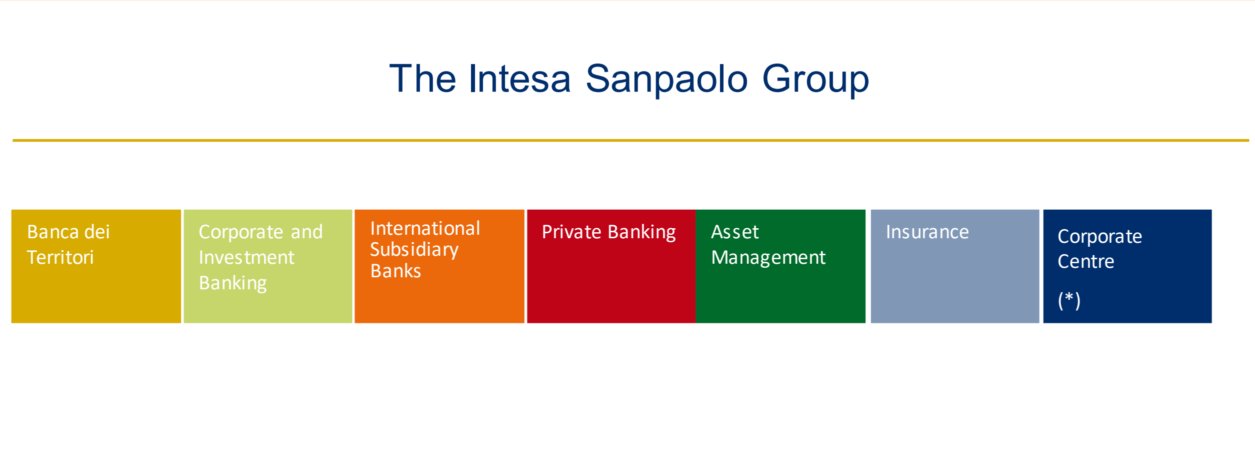
Captions	31.03.2020	31.12.2019
Group Shareholders' equity	56,516	55,968
Minority interests	233	247
Shareholders' equity as per the Balance Sheet	**56,749**	**56,215**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-5,590	-4,091
- Minority interests eligible for inclusion in AT1	-6	-5
- Minority interests eligible for inclusion in T2	-3	-3
- Ineligible minority interests on full phase-in	-188	-204
- Ineligible net income for the period (a)	-910	-3,451
- Treasury shares included under regulatory adjustments	228	230
- Other ineligible components on full phase-in	-137	-171
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**50,143**	**48,520**
Regulatory adjustments (including transitional adjustments) (b)	**-7,804**	**-6,978**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**42,339**	**41,542**

(a) Common Equity Tier 1 capital as at 31 March 2020 includes the net income as at that date, less the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (75% for 2020) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 31 March 2020 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (70% in 2020) set to decrease progressively until 2022.

Breakdown of consolidated results by business area

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



(*) Includes the Group's Treasury and the NPE Head Office Department

The Intesa Sanpaolo Group's segment reporting is based on the elements that management uses to make its own operating decisions (the "management approach"), in accordance 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 quarter of 2020.
The following itemised analysis of the business areas illustrates the income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed was also calculated based on Risk Weighted Assets (RWAs) that are determined in accordance with the provisions in force (Circular 285) 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. Absorbed capital also takes account of the regulatory changes introduced by the ECB with effect from 12 March 2020, allowing the Pillar 2 requirement to be met partially using equity instruments not classified as Common Equity Tier 1; 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.

As indicated in the comments on the consolidated results for the first quarter of 2020, the specific management adjustments made for the initial estimate of the possible effects of the COVID-19 pandemic on performing loans were posted among provisions for risks and charges to better isolate that judgemental component, determined on a collective basis and not individually for each position, necessarily made near the approval of the results in order to obtain the most up-to-date information. As part the results by business area, this provision, which amounts to 300 million euro, was fully included in the Corporate Centre, for the stated reasons.

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. In particular, the restatement concerned:
- the line-by-line deconsolidation by Banca dei Territori and reallocation to the income/loss from discontinued operations of the Corporate Centre of the economic results of the acquiring business unit within the framework of payment services, contributed to Nexi per the agreement signed in December 2019;
- the reallocation between the Banca dei Territori Division and Corporate and Investment Banking Division of the economic results and balance sheet aggregates of Mediocredito Italiano, previously fully included within Banca dei Territori, following its merger by incorporation into the Parent Company in November 2019;
- the reallocation to the Divisions of various operating costs and of income statement and balance sheet components relating to bad loans, previously attributed to the NPE Department (former Capital Light Bank) within the Corporate Centre, following the operational reorganisation of the Chief Lending Officer Governance Area;

- the inclusion among the operating costs of the Divisions of the effects of the fees to be paid to Prelios under the servicing agreement for the management of unlikely-to-pay loans, which entered into effect at the end of 2019, assuming that this agreement had entered into effect from 1 January 2019, since it will have an ongoing impact on future income statements;
- the revision of the internal transfer rate applied in 2020 in view of market interest rate dynamics.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
31.03.2020	2,054	1,633	468	478	168	283	-202	4,882
31.03.2019	2,072	793	482	482	180	264	96	4,369
% change	-0.9		-2.9	-0.8	-6.7	7.2		11.7
Operating costs								
31.03.2020	-1,236	-265	-239	-141	-33	-44	-211	-2,169
31.03.2019	-1,285	-274	-238	-148	-36	-45	-204	-2,230
% change	-3.8	-3.3	0.4	-4.7	-8.3	-2.2	3.4	-2.7
Operating margin								
31.03.2020	818	1,368	229	337	135	239	-413	2,713
31.03.2019	787	519	244	334	144	219	-108	2,139
% change	3.9		-6.1	0.9	-6.3	9.1		26.8
Net income (loss)								
31.03.2020	280	911	143	227	100	160	-670	1,151
31.03.2019	301	316	181	232	117	157	-254	1,050
% change	-7.0		-21.0	-2.2	-14.5	1.9		9.6
								-
Loans to customers								
31.03.2020	195,422	144,314	34,460	9,005	224	-	21,475	404,900
31.12.2019	194,358	131,884	34,038	9,329	435	-	25,185	395,229
% change	0.5	9.4	1.2	-3.5	-48.5	-	-14.7	2.4
Direct deposits from banking business								
31.03.2020	202,535	88,637	42,929	39,871	8	-	59,638	433,618
31.12.2019	199,256	86,850	43,420	39,537	10	-	56,439	425,512
% change	1.6	2.1	-1.1	0.8	-20.0	-	5.7	1.9
Risk-weighted assets								
31.03.2020	85,351	105,791	32,637	9,370	1,270	-	62,700	297,119
31.12.2019	86,829	100,274	32,916	9,184	1,446	-	67,875	298,524
% change	-1.7	5.5	-0.8	2.0	-12.2	-	-7.6	-0.5
Absorbed capital								
31.03.2020	7,332	9,090	3,445	869	129	3,412	5,385	29,662
31.12.2019	7,459	8,617	3,495	851	146	3,515	5,830	29,913
% change	-1.7	5.5	-1.4	2.1	-11.6	-2.9	-7.6	-0.8

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

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	31.03.2020	31.03.2019	changes	
			amount	%
Net interest income	1,046	1,037	9	0.9
Net fee and commission income	990	1,018	-28	-2.8
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	18	18	-	-
Other operating income (expenses)	-	-1	-1	
Operating income	**2,054**	**2,072**	**-18**	**-0.9**
Personnel expenses	-737	-772	-35	-4.5
Other administrative expenses	-498	-511	-13	-2.5
Adjustments to property, equipment and intangible assets	-1	-2	-1	-50.0
Operating costs	**-1,236**	**-1,285**	**-49**	**-3.8**
Operating margin	**818**	**787**	**31**	**3.9**
Net adjustments to loans	-366	-301	65	21.6
Other net provisions and net impairment losses on other assets	-17	-7	10	
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**435**	**479**	**-44**	**-9.2**
Taxes on income	-152	-172	-20	-11.6
Charges (net of tax) for integration and exit incentives	-3	-6	-3	-50.0
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	-	-	-	-
Net income (loss)	**280**	**301**	**-21**	**-7.0**

(millions of euro)

	31.03.2020	31.12.2019	changes	
			amount	%
Loans to customers	195,422	194,358	1,064	0.5
Direct deposits from banking business	202,535	199,256	3,279	1.6
Risk-weighted assets	85,351	86,829	-1,478	-1.7
Absorbed capital	7,332	7,459	-127	-1.7

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 2,054 million euro in the first quarter of 2020, amounting to around 40% of the Group's consolidated operating income, down slightly (-0.9%) on the same period of the previous year. In detail, there was a slight increase in net interest income (+0.9%) and a decrease in net fee and commission income (-2.8%), which were impacted by the sharp slowdown in March, followed by the lockdown for the purpose of containing the COVID-19 pandemic, specifically income relating to the commercial banking and assets under administration segments. The lower placements of certificates and third-party bonds were only partially offset by the higher placements of asset management products, especially in the funds and bancassurance segments. Among the other revenue components, which however provide a marginal contribution to the Division's income, both profits (losses) on financial assets and liabilities designated at fair value and in other operating income remained at levels similar to those of the same period of 2019. Operating costs, equal to 1,236 million euro, were down by 3.8%, thanks to the savings in personnel expenses, attributable to the reduction in the average workforce, and the decrease in administrative expenses, mainly due to lower service costs 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 818 million euro, up 3.9% on the same period of the previous year. In contrast, gross income, amounting to 435 million euro, was down 9.2% due to higher adjustments to loans and provisions for risks and

charges. Lastly, net income, after allocation to the Division of taxes of 152 million euro and charges for integration of 3 million euro, amounted to 280 million euro, down 7% compared to the first three months of 2019.
In quarterly terms, there was an increase in the operating margin and net income compared with the fourth quarter of 2019, thanks to the reduction in operating costs and adjustments to loans and provisions, which largely offset lower revenues.

The balance sheet figures at the end of March 2020 showed growth in total intermediated volumes of loans and deposits from the beginning of the year (+1.1%). In detail, loans to customers, equal to 195,422 million euro, recorded an increase of 1.1 billion euro year-to-date (+0.5%), due mainly to medium-/long-term loans to private individuals and retail businesses. Direct deposits from banking business, amounting to 202,535 million euro, were up (+3.3 billion euro, or +1.6%) in the amounts due to customers component, mainly due to the higher liquidity on deposits held by individuals.

Corporate and Investment Banking

(millions of euro)

Income statement	31.03.2020	31.03.2019	changes	
			amount	%
Net interest income	497	457	40	8.8
Net fee and commission income	239	216	23	10.6
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	897	120	777	
Other operating income (expenses)	-	-	-	-
Operating income	**1,633**	**793**	**840**	
Personnel expenses	-96	-102	-6	-5.9
Other administrative expenses	-161	-165	-4	-2.4
Adjustments to property, equipment and intangible assets	-8	-7	1	14.3
Operating costs	**-265**	**-274**	**-9**	**-3.3**
Operating margin	**1,368**	**519**	**849**	
Net adjustments to loans	-4	-43	-39	-90.7
Other net provisions and net impairment losses on other assets	6	-10	16	
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**1,370**	**466**	**904**	
Taxes on income	-457	-149	308	
Charges (net of tax) for integration and exit incentives	-2	-1	1	
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)	**911**	**316**	**595**	

(millions of euro)

	31.03.2020	31.12.2019	changes	
			amount	%
Loans to customers	144,314	131,884	12,430	9.4
Direct deposits from banking business (a)	88,637	86,850	1,787	2.1
Risk-weighted assets	105,791	100,274	5,517	5.5
Absorbed capital	9,090	8,617	473	5.5

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 quarter of 2020, the Corporate and Investment Banking Division recorded operating income of 1,633 million euro (representing about 30% of the Group's consolidated total), more than double that of the same period of last year.
In detail, net interest income of 497 million euro was up (+8.8%), benefiting from the greater contribution of loans to customers and the strong performance of the securities portfolio. Net fee and commission income, amounting to 239 million euro, increased by 10.6%, due to the performance of the commercial banking and investment banking segments. Profits on financial assets and liabilities designated at fair value, amounting to 897 million euro, was the revenue caption with the highest increase compared to the first three months of 2019: +777 million euro. The positive impact was mainly recorded on the trend of valuation effects, which reflect the debt value adjustment (DVA) related to liabilities in the form of certificates and, to a lesser extent, the capital gains realised on the securities portfolio of Banca IMI. Operating costs amounted to 265 million euro, down 3.3% compared to the same period of the previous year, due to savings on personnel and administrative expenses. As a result of the above revenue and cost trends, the operating margin came to 1,368 million euro, compared to 519 million euro recorded in the same period of 2019. Gross income, amounting to 1,370 million euro, was up 904 million euro, which was also the result of lower net adjustments to loans and other assets. Lastly, net income came to 911 million euro (+595 million euro).
In the first quarter of 2020, the Corporate and Investment Banking Division recorded an operating margin almost double that of the fourth quarter of 2019, to be analysed along with the development of revenues attributable to net profits (losses) on

financial assets and liabilities designated at fair value and the reduction in operating costs. This development was reflected in the gross income and in the net income, which showed equivalent changes.

The Division’s intermediated volumes increased compared to the beginning of the year (+6.5%). In detail, loans to customers, amounting to 144,314 million euro, grew significantly by 12.4 billion euro (+9.4%), essentially due to operations in the structured finance and global markets segments and with global corporate and financial institutions customers. Direct deposits from banking business, equal to 88,637 million euro, increased by 1.8 billion euro (+2.1%) due to the development of repurchase agreements, which more than offset the decline in securities issued and certificates of Banca IMI.

International Subsidiary Banks

(millions of euro)

Income statement	31.03.2020	31.03.2019	changes	
			amount	%
Net interest income	331	338	-7	-2.1
Net fee and commission income	123	128	-5	-3.9
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	19	22	-3	-13.6
Other operating income (expenses)	-5	-6	-1	-16.7
Operating income	**468**	**482**	**-14**	**-2.9**
Personnel expenses	-131	-131	-	-
Other administrative expenses	-81	-81	-	-
Adjustments to property, equipment and intangible assets	-27	-26	1	3.8
Operating costs	**-239**	**-238**	**1**	**0.4**
Operating margin	**229**	**244**	**-15**	**-6.1**
Net adjustments to loans	-22	-6	16	
Other net provisions and net impairment losses on other assets	-14	4	-18	
Other income (expenses)	5	-	5	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**198**	**242**	**-44**	**-18.2**
Taxes on income	-46	-54	-8	-14.8
Charges (net of tax) for integration and exit incentives	-9	-7	2	28.6
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)	**143**	**181**	**-38**	**-21.0**

(millions of euro)

	31.03.2020	31.12.2019	changes	
			amount	%
Loans to customers	34,460	34,038	422	1.2
Direct deposits from banking business	42,929	43,420	-491	-1.1
Risk-weighted assets	32,637	32,916	-279	-0.8
Absorbed capital	3,445	3,495	-50	-1.4

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.

In the first quarter of 2020, the Division's operating income came to 468 million euro, down by 2.9% on the same period of the previous year (-4.7% at constant exchange rates). A detailed analysis shows that net interest income came to 331 million euro (-2.1%), mainly due to the trends reported by VUB Banka (-15 million euro), and, to a lesser extent, PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (-4 million euro) - only partly offset by Bank of Alexandria (+9 million euro) and CIB Bank (+2 million euro). Net fee and commission income, equal to 123 million euro, was down (-3.9%) mainly due to PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (-9 million euro). Among the other revenue components, net profits (losses) on financial assets and liabilities designated at fair value, decrease by 3 million euro (-13.6%) compared to the same period of the previous year. Operating costs, amounting to 239 million euro, remained at levels substantially similar to those for the first three months of 2019 (+0.4%; -0.9% at constant exchange rates). As a result of the above revenue and cost trends, the operating margin decreased (-6.1%) to 229 million euro. Gross income, equal to 198 million euro, decreased by 18.2%, also due to higher adjustments to loans and provisions and net adjustments to other assets. The Division closed the first quarter of 2020 with net income of 143 million euro (-21%).

The first quarter of 2020 reported an operating margin down on the fourth quarter of 2019, due to a decrease in revenues, only partially offset by the savings on operating costs. As a result, gross income and net income were also lower than in the previous quarter.

The Division's intermediated volumes were substantially stable compared to the beginning of the year, as a result of a slight increase in loans to customers (+1.2%) as well as a slight drop in direct deposits from banking business (-1.1%), specifically in the component of amounts due to customers. Lending performance was mainly attributable to greater loans disbursed by the subsidiaries operating in Slovakia, Egypt, Serbia and Croatia, whereas funding performance was attributable to the subsidiaries operating in Hungary, Slovakia and Serbia.

Private Banking

(millions of euro)

Income statement	31.03.2020	31.03.2019	changes	
			amount	%
Net interest income	48	44	4	9.1
Net fee and commission income	427	424	3	0.7
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	3	14	-11	-78.6
Other operating income (expenses)	-	-	-	-
Operating income	**478**	**482**	**-4**	**-0.8**
Personnel expenses	-78	-87	-9	-10.3
Other administrative expenses	-49	-47	2	4.3
Adjustments to property, equipment and intangible assets	-14	-14	-	-
Operating costs	**-141**	**-148**	**-7**	**-4.7**
Operating margin	**337**	**334**	**3**	**0.9**
Net adjustments to loans	-3	-3	-	-
Other net provisions and net impairment losses on other assets	-6	-10	-4	-40.0
Other income (expenses)	6	9	-3	-33.3
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**334**	**330**	**4**	**1.2**
Taxes on income	-103	-94	9	9.6
Charges (net of tax) for integration and exit incentives	-4	-4	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**227**	**232**	**-5**	**-2.2**

(millions of euro)

	31.03.2020	31.12.2019	changes	
			amount	%
Assets under management [(1)]	112,256	122,660	-10,404	-8.5
Risk-weighted assets	9,370	9,184	186	2.0
Absorbed capital	869	851	18	2.1

(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 quarter of 2020, in a highly volatile scenario, the Division earned gross income of 334 million euro, up by 1.2% on the first three months of 2019, mainly due to the significant savings on operating costs (-4.7%), which more than offset the slight decrease in operating income (-0.8%).
The trend in revenues is attributable to the reduction in net income (loss) of financial assets (-11 million euro) due to lower capital gains through the sale of debt securities in the fair value through other comprehensive income portfolio, only partially absorbed by the increase in net interest income (+4 million euro) and in net fee and commission income (+3 million euro). The Division closed the first quarter of 2020 with net income of 227 million euro, down by 2.2% on the same period of 2019.

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 31 March 2020, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 182.4 billion euro (-21 billion euro compared to the beginning of the year). This trend was due to the market performance, which was impacted by the pandemic that had a negative effect on assets. The assets under management component amounted to 112.3 billion euro (-10.4 billion euro).

Asset Management

(millions of euro)

Income statement	31.03.2020	31.03.2019	Changes	
			amount	%
Net interest income	-	-	-	-
Net fee and commission income	174	167	7	4.2
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	-12	3	-15	
Other operating income (expenses)	6	10	-4	-40.0
Operating income	**168**	**180**	**-12**	**-6.7**
Personnel expenses	-16	-18	-2	-11.1
Other administrative expenses	-16	-17	-1	-5.9
Adjustments to property, equipment and intangible assets	-1	-1	-	-
Operating costs	**-33**	**-36**	**-3**	**-8.3**
Operating margin	**135**	**144**	**-9**	**-6.3**
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)	**135**	**144**	**-9**	**-6.3**
Taxes on income	-35	-27	8	29.6
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	-	-	-	-
Net income (loss)	**100**	**117**	**-17**	**-14.5**

(millions of euro)

	31.03.2020	31.12.2019	changes	
			amount	%
Assets under management	247,923	265,813	-17,890	-6.7
Risk-weighted assets	1,270	1,446	-176	-12.2
Absorbed capital	129	146	-17	-11.6

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 in the first quarter of 2020, amounting to 168 million euro, decreased by 6.7% compared to the same period of the previous year, attributable to the negative contribution from the fair value measurement of the financial portfolio in which cash and cash equivalents of the Division are invested and, to a lesser extent, the decrease in other operating income. Conversely, fee and commission income increased (+4.2%), specifically recurring fee and commission income, which benefited from average assets under management higher than in the first quarter of 2019. Operating costs reported a significant decrease (-8.3%), attributable to personnel expenses, in relation to lower provisions for the incentive system, and administrative expenses, thanks to the efficiency gains achieved in the operational structure. As a result of the above revenue and cost trends, the operating margin came to 135 million euro, down 6.3% on the same period of the previous year. The Division closed the first quarter of 2020 with net income of 100 million euro (-14.5%).

Overall, the total assets managed by the Asset Management Division at the end of March came to 247.9 billion euro, down by 17.9 billion euro (-6.7%) compared to 31 December 2019, mostly attributable to the market trends resulting from the spread of the COVID-19 pandemic. In the first three months of 2020, net outflows came to 1.3 billion euro, compared to net outflows of 2.3 billion euro in the same period of the previous year. The outflows in the quarter were the result of both products dedicated to institutional customers, including insurance mandates (-0.8 billion euro) and mutual funds (-0.4 billion euro) and asset management for retail and private customers (-0.1 billion euro).

As at 31 March 2020, Eurizon Capital's Italian market share of assets under management was 14.4% (gross of duplications), down slightly 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", the share of assets under management at the end of March rose to 14.8%.

Insurance

(millions of euro)

Income statement	31.03.2020	31.03.2019	Changes	
			amount	%
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	285	266	19	7.1
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-2	-2	-	-
Operating income	**283**	**264**	**19**	**7.2**
Personnel expenses	-21	-21	-	-
Other administrative expenses	-20	-21	-1	-4.8
Adjustments to property, equipment and intangible assets	-3	-3	-	-
Operating costs	**-44**	**-45**	**-1**	**-2.2**
Operating margin	**239**	**219**	**20**	**9.1**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-6	-	6	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**233**	**219**	**14**	**6.4**
Taxes on income	-66	-58	8	13.8
Charges (net of tax) for integration and exit incentives	-2	-	2	-
Effect of purchase price allocation (net of tax)	-5	-4	1	25.0
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**160**	**157**	**3**	**1.9**

(millions of euro)

	31.03.2020	31.12.2019	changes	
			amount	%
Direct deposits from insurance business (1)	156,483	165,846	-9,363	-5.6
Risk-weighted assets	-	-	-	-
Absorbed capital	3,412	3,515	-103	-2.9

(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 quarter of 2020, the Division reported income from insurance business of 285 million euro, up 19 million euro (+7.1%) compared to the same period of 2019. The improved result – achieved despite the lower financial revenues realised on the life insurance portfolio compared to the first three months of the previous year – was mainly attributable to components of a technical nature related to an improvement in commission income, releases of reserves and growth in the non-life business.
Gross income amounted to 233 million euro, up by 14 million euro (+6.4%), due to the aforementioned increase in operating income and, to a lesser extent, the decrease in operating costs (-2.2%), which more than offset the adjustments made as a result of the scenario resulting from the COVID-19 epidemic.
The cost/income ratio, at 15.5%, remained at excellent levels, down on the figure reported for the first quarter of 2019.
Lastly, net income, after the attribution of taxes of 66 million euro, charges for integration of 2 million euro and the effects of purchase price allocation for 5 million euro, amounted to 160 million euro (+1.9%).

Direct deposits from insurance business, amounting to 156,483 million euro, were down compared to the beginning of the year (-5.6%, or -9.4 billion euro), mainly due to the financial liabilities measured at fair value and, to a lesser extent, the technical reserves.

The Division’s collected premiums for life policies and pension products amounted to 4 billion euro, up 6% on the same period of last year, entirely due to the unit-linked segment. Collected premiums for traditional (dedicated to certain specific customer clusters) and pension products decreased by 8% and 6% respectively.

Collected premiums for the protection business totalled 179 million euro, up by 14% on the first three months of 2019. There was significant growth in non-motor products (excluding CPI), which are the focus of the 2018-2021 Business Plan, up by around 43%.

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 negative operating margin of 413 million euro in the first quarter of 2020, compared to -108 million euro in the corresponding period of the previous year. That performance is mainly attributable to the negative trend in operating income, attributable to the drop in the profits (losses) on financial assets and liabilities designated at fair value, in the net interest income to a lesser extent, due to the higher cost of excess liquidity in view of the decrease in short-term market rates, and fee and commission income. The operating costs, net of the amount charged back to the business units for the performance of the servicer activities, governed by specific agreements, remained at levels similar to those of the same period of 2019. The gross loss of -672 million euro was penalised by provisions of around 300 million euro allocated in relation to the scenario resulting from the COVID-19 epidemic. The quarter ended with a net loss of 670 million euro, compared to the 254 million euro recorded in the same period of the previous year. The income statement of the Corporate Centre includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking industry and consequently outside the company management. These charges, essentially consisting of contributions to resolution funds, amounted to 191 million euro, after tax, up from 146 million euro in the same period of the previous year.

Treasury services

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

During the first quarter of 2020, Intesa Sanpaolo confirmed its systemic role as a critical participant in the ECB’s settlement systems, both on the Target2 (cash) platform, and on the Target2 Securities platform (securities).
Despite the problems deriving from COVID-19, from the second half of February, the Bank demonstrated its ability to guarantee an excellent service level in payment systems, as well as continue its projects, especially strategic/institutional projects such as “Consolidation T2-T2S”.
In detail, in terms of internal projects, Intesa Sanpaolo met the milestones for the end of the quarter set by the ECB, choosing a Network Service Provider for connection to the new Platform and finishing the drawing up of internal documents (Business Requirements and Functional Analysis).
In the same period, the central banks of various countries in the world implemented numerous measures, such as cuts in interest rates and interventions on the open market, to combat the economic and industrial effects of the drastic measures of governments aimed at containing the spread of the COVID-19 virus. The European Central Bank did not implement any interest rate cuts. It initially intervened with an increase of up to 120 billion euro in the Quantitative Easing, expanding the offer of lending at more favourable conditions for the TLTRO III and new, weekly LTRO programmes. That measure was insufficient to reduce market volatility. Therefore, the ECB intervened once again, with a surprise announcement of the launch of a new Pandemic Emergency Purchase Programme of 750 billion euro and the expansion of the Corporate Sector Purchase Programme through the purchase of commercial paper issued by the non-financial sector. Moreover, as part of the emergency programme, it suspended the limit of 33% on purchases of government bonds and of 50% on bonds issued by international and supranational entities. Lastly, it eased the eligibility criteria and the risk control system applied to assets eligible as collateral for refinancing operations in the Eurosystem, measures introduced to increase the availability of securities and loans, to facilitate banks’ access to refinancing with the ECB. To combat the liquidity crisis triggered by the coronavirus pandemic, during two surprise meetings in March, the Federal Reserve made cuts for a total of 150 basis points, bringing Fed funds to the range of 0%-0.25%. It then expanded its latest emergency package, announcing the unlimited purchase of securities. The ceiling had initially been set at 700 billion USD. Swap lines in USD were also negotiated with leading central banks. Lastly, it reactivated a programme for purchase of commercial paper issued by non-financial corporates, along with additional measures to support the disbursement of credit through guarantees on loans to small and medium-sized enterprises, states and local entities. The stable trend in the short-term curves at the beginning of the year was thus followed, in March, by sharp volatility on the markets in general on all asset classes. Following a long period of stability, the Euribor also recorded an uptrend, with a value over the 12 month that rose from a minimum of -0.368% to the level at the end of March around -0.15%. From January to March 2020, excess liquidity remained at an average of around 1,800 billion euro, an amount slightly higher during the last two weeks of March, following the new LTRO/TLRO auctions and the bond purchase programme.

With reference to short-term securities funding in euro and foreign currency of Intesa Sanpaolo, up to the first week of March, the outstanding remained substantially stable, with issues concentrated in the 6-12 month section. The acceleration of the spread of the virus in Italy and the related consequences then generated a sharp freeze on issues and renewals and the occurrence, at the general system level, of some (though moderate) requests for repurchase of outstanding issues.

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 1.6 billion euro. Among the securities placed, there was a prevalence (98%) of structured financial instruments, mainly comprised of index-linked structures. A breakdown by average maturity shows that 37% is comprised of instruments with maturities up to 4 years, 62% by 5-, 6- and 7-year securities, and the remaining 1% of 10-year securities.
On the international markets, institutional unsecured funding transactions were completed for a total of around 2.2 billion euro, of which: 2.1 billion euro through senior bond issues (public transactions and private placements) and subordinate issues placed on the Euromarket and 47 million euro through the issue of Banca IMI bonds and certificates placed with institutional investors.
Specifically, during the quarter, the following public transactions were carried out, targeted to institutional investors: in January, 350 million GDP (equal to around 413 million euro) in senior fixed-rate bonds targeted to the UK and European

markets. In February, 1.5 billion euro in subordinate, fixed-rate bonds targeted to the international markets (AT1 perpetual instruments). The security was issued in two tranches of 750 million euro each, with the right of early redemption which can be exercised by the issuer starting from the fifth year and the tenth year from the issue date, respectively, and subsequently, at each coupon payment date. Based on the contractual terms, payment of interest is at the issuer's discretion (though subject to several regulatory restrictions). Moreover, where the Common Equity Tier 1 (CET1) ratio of the Group or of Intesa Sanpaolo falls below 5.125%, the nominal value of the instruments will be temporarily reduced by the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.
Under the programme guaranteed by ISP OBG, the securities of the 6th, 15th and 16th series were redeemed in advance in February for a total of 3.484 billion euro and two new series, the 38th and 39th, were issued for an amount of 1.750 billion euro each. In March, the 40th series was issued for an amount of 1.8 billion euro. The securities, which have a DBRS A High rating, are both floating rate with a maturity of 13 years for the 38th series and 14 years for the 39th and 40th series. The securities, which are listed on the Luxembourg Stock Exchange, were fully subscribed by the Parent Company and are eligible for the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 10th series was partially redeemed for an amount of 550 million euro, bringing the nominal amount to 550 million euro. Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 27th series was issued for an amount of 750 million euro. The security, with an Aa3 rating from Moody's, is a floating rate, 11-year security listed on the Luxembourg Stock Exchange, and was fully subscribed by the Parent Company and is eligible for the Eurosystem.

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 March 2020, the outstanding amount, gross of haircuts applicable to loans lodged as pledge by the Group, amounted to 13.6 billion euro.

On the repo market, volumes of Italian government bonds traded decreased slightly and interest rates reached higher levels than the depo facility. During the quarter, there was greater volatility in the spread between the rates of the core countries and Italian government bonds. At the end of the quarter spreads expanded slightly.

Risk management

MAIN RISKS AND UNCERTAINTIES

Specific information regarding the situation following the COVID-19 pandemic and the specific actions taken has been provided in the Executive Summary. It also provides information about the impact on the valuation of financial assets and credit risk, as well as the impairment testing of the intangible assets in the situation resulting from the COVID-19 pandemic.
Group liquidity remains high: as at 31 March 2020, 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 the fully phased-in regulatory requirements. At the end of March 2020, the amount of unencumbered HQLA reserves, consisting of cash and deposits held with Central Banks, totalled 91 billion euro (96 billion euro in December 2019); adding in other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves totalled 96 billion euro (118 billion euro in December 2019).
The loan to deposit ratio at the end of March 2020, 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: 78% of direct deposits from banking business come from retail operations (338 billion euro). In addition, GBP 350 million of unsecured senior bonds and 1.5 billion euro of Additional Tier 1 instruments were placed during the quarter.
Refinancing operations with the ECB at the end of March 2020 amounted to 68.4 billion euro (of which 53.9 billion euro relating to TLTROs, 7 billion euro relating to LTROs, and 7.5 billion euro relating to US dollar refinancing operations).
The Intesa Sanpaolo Group's leverage ratio was 6.6% as at 31 March 2020.
The Bank's already high level of capital strength was further enhanced following the approval at the Shareholders' Meeting of 27 April 2020 of the proposal to suspend the distribution of dividends to shareholders and to allocate the profit for the 2019 financial year to reserves, made by the Board of Directors on 31 March 2020, in compliance with the European Central Bank recommendation of 27 March 2020, concerning dividend policies through to 1 October 2020, as a result of the situation resulting from the COVID-19 epidemic, after the assignment of 12.5 million euro to the Allowance for charitable, social and cultural contributions.
Own funds, risk-weighted assets and the capital ratios as at 31 March 2020 have been calculated in accordance with the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards laid down by the Basel Committee (the Basel 3 Framework) into European Union legislation, and in accordance with the related Bank of Italy Circulars.
At the end of March, Own Funds – taking account of the transitional treatment adopted to mitigate the impact of IFRS 9 – came to 54,971 million euro, against risk-weighted assets of 297,119 million euro, which primarily reflected credit and counterparty risk and, to a lesser extent, market and operational risk.
The Total Capital Ratio stood at 18.5%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 16.1%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 14.2%.
Having met the regulatory requirements for its inclusion pursuant to article 26(2) of the CRR, the Common Equity Tier 1 Capital as at 31 March 2020 took account of the figure of 25% of the net income for the period (net of foreseeable costs), in accordance with the dividend policy set out in the 2018-2021 Business Plan, which envisages a payout ratio of 75% for 2020, subject to the recommendations that will be provided by the ECB regarding dividend distributions after 1 October this year, the end date in the recommendation issued on 27 March.
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 (inclusive of the HTCS portfolio for Banca IMI) in terms of managerial VaR during the first three months of 2020 was approximately 175 million euro, in line – in average terms – with 177 million euro in the same period of 2019. The Group's average VaR for the period on the trading component only was 41 million euro (with a peak of 75 million euro), lower than in the same quarter of 2019, when it was 51 million euro. The trend in the first quarter of 2020 showed a sharp increase in the managerial VaR (mainly to be attributed to Banca IMI's HTCS portfolio) entirely attributable to the health emergency generated by the COVID-19 pandemic, which caused an exceptional increase in volatility and correlations in various segments of the financial markets.

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

Subject to the powers of the Corporate Bodies, the Chief Risk Officer Governance Area – reporting directly to the Managing Director and CEO – 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 strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, also 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; and (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[10], 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.

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.
The Bank, in agreement with the Supervisory Authorities, is currently assessing the impacts both of the recent decision of the Basel Committee (27 March 2020) to postpone the implementation of the Basel III standards by one year (to 1 January 2023), and of the other regulatory measures, some of which are still being defined, designed to provide banks and Supervisory Authorities additional capacity to rapidly and effectively respond to the impact of Covid-19.
With regard to credit risk, there were no changes with respect to the situation as at 31 December 2019. The periodic updating and alignment to changes in regulations governing IRB systems and their roll-out to international subsidiaries (according to the Group's roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.
There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and Securities Financing Transactions (SFTs) or operational risks compared to 31 December 2019.
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 2020.
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.

[10] 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.

CREDIT RISK

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

Credit quality

(millions of euro)

Captions	31.03.2020			31.12.2019			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	18,399	-11,841	6,558	19,418	-12,678	6,740	-182
Unlikely to pay	10,823	-4,184	6,639	10,995	-4,257	6,738	-99
Past due loans	956	-152	804	886	-142	744	60
Non-Performing Loans	**30,178**	**-16,177**	**14,001**	**31,299**	**-17,077**	**14,222**	**-221**
Non-performing loans in Stage 3 (subject to impairment)	*30,134*	*-16,162*	*13,972*	*31,257*	*-17,062*	*14,195*	*-223*
Non-performing loans designated at fair value through profit or loss	*44*	*-15*	*29*	*42*	*-15*	*27*	*2*
Performing loans	**386,414**	**-1,592**	**384,822**	**376,839**	**-1,697**	**375,142**	**9,680**
Stage 2	*43,126*	*-982*	*42,144*	*41,146*	*-1,068*	*40,078*	*2,066*
Stage 1	*342,479*	*-610*	*341,869*	*334,973*	*-629*	*334,344*	*7,525*
Performing loans designated at fair value through profit or loss	*809*	*-*	*809*	*720*	*-*	*720*	*89*
Performing loans represented by securities	**6,084**	**-30**	**6,054**	**5,875**	**-34**	**5,841**	**213**
Stage 2	*3,122*	*-26*	*3,096*	*2,972*	*-30*	*2,942*	*154*
Stage 1	*2,962*	*-4*	*2,958*	*2,903*	*-4*	*2,899*	*59*
Loans held for trading	**23**	**-**	**23**	**24**	**-**	**24**	**-1**
Total loans to customers	**422,699**	**-17,799**	**404,900**	**414,037**	**-18,808**	**395,229**	**9,671**
of which forborne performing	***5,622***	***-190***	***5,432***	***5,918***	***-255***	***5,663***	***-231***
of which forborne non-performing	***6,704***	***-2,819***	***3,885***	***7,157***	***-3,119***	***4,038***	***-153***
Loans to customers classified as discontinued operations (*)	**797**	**-148**	**649**	**475**	**-93**	**382**	**267**

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

(*) As at 31 March 2020, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 470 million euro, total adjustments of 102 million euro, net exposure of 368 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 327 million euro, total adjustments of 46 million euro, net exposure of 281 million euro).

As at 31 March 2020, the Group's net non-performing loans amounted to 14 billion euro, down by 1.6% compared with the beginning of the year, continuing the progressive decline already seen in the previous year. Non-performing assets also decreased as a percentage of total net loans to customers, down to 3.5%, in line with the de-risking strategy set out in the Business Plan, while the coverage ratio for non-performing loans remained high (53.6%).

In further detail, at the end of March 2020 bad loans came to 6.6 billion euro net of adjustments (down by -182 million euro on the beginning of the year, or -2.7%), and represented 1.6% of total loans. During the same period, the coverage ratio came to 64.4%. Loans included in the unlikely-to-pay category amounted to 6.6 billion euro, down by 1.5%, accounting for 1.7% of total loans to customers, with a coverage ratio of 38.7%. Past due loans amounted to 804 million euro (+8.1%), with a coverage ratio of 15.9%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 3.9 billion euro, with a coverage ratio of 42%, while forborne exposures in the performing loans category amounted to 5.4 billion euro.
Overall, the coverage ratio of performing loans amounted to 0.4%.
For further information on the provision for the COVID-19 epidemic, refer to the discussion provided in the Executive Summary.

MARKET RISKS

TRADING BOOK

During the first quarter of 2020, managerial market risk measures (inclusive of the HTCS portfolio for Banca IMI) generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the fourth quarter of 2019. The Group's average managerial VaR for the period was equal to 175 million euro compared to 120 million euro in the previous quarter. The maximum value for the quarter was approximately 367 million euro.
The average figure for the first three months of 2020 was slightly lower than in the first quarter of 2019, when it amounted to 177 million euro.

The Group's average VaR for the period on the trading component only was 41 million euro (with a peak of 75 million euro), stable compared to the previous quarter. The average figure for the first three months of 2020 was lower than in the first quarter of 2019, when it amounted to 51 million euro.

The breakdown of the Group's risk profile in the first quarter of 2020 with regard to the different risk factors shows the prevalence of credit spread risk, which accounted for 73% of the Group's total managerial VaR, of which respectively 54% for Intesa Sanpaolo and 74% for Banca IMI(55% for the trading component only).

The VaR trend in the first quarter of 2020 is primarily attributable to Banca IMI. In January risks increased overall by approximately 37%, due to transactions in government bonds, in accordance with the 2020 RAF. In March there was a sharp increase in managerial VaR (mainly due to the government bonds in Banca IMI's HTCS portfolio), entirely attributable to the health emergency generated by the COVID-19 pandemic, which caused an exceptional increase in volatility and correlations in various segments of the financial markets (e.g. equities and fixed income).
Financial markets are characterised by "market dislocation" that has severely compromised their functioning.

Risk control with regard to the trading 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 within the managerial scope defined above at the end of March is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	-8	-14	-207	118	817	-794	11	-17	2	-2
of which HTCS of Banca Imi	*0*	*0*	*-158*	*97*	*725*	*-701*	-	-	-	-

In particular:
- for stock market positions, there would be 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 207 million euro in the event of an increase in rate curves of 40 bps (of which 158 million euro attributable to Banca IMI's HTCS portfolio);
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 794 million euro (of which 701 million euro attributable to Banca IMI's HTCS portfolio);
- for positions in exchange rates, there would be a loss of 17 million euro in the event of a 5% appreciation in the Euro;
- finally, for positions in commodities, there would be a loss of 2 million euro in the event of an increase in commodity prices other than precious metals and the consequent decline in volatility.

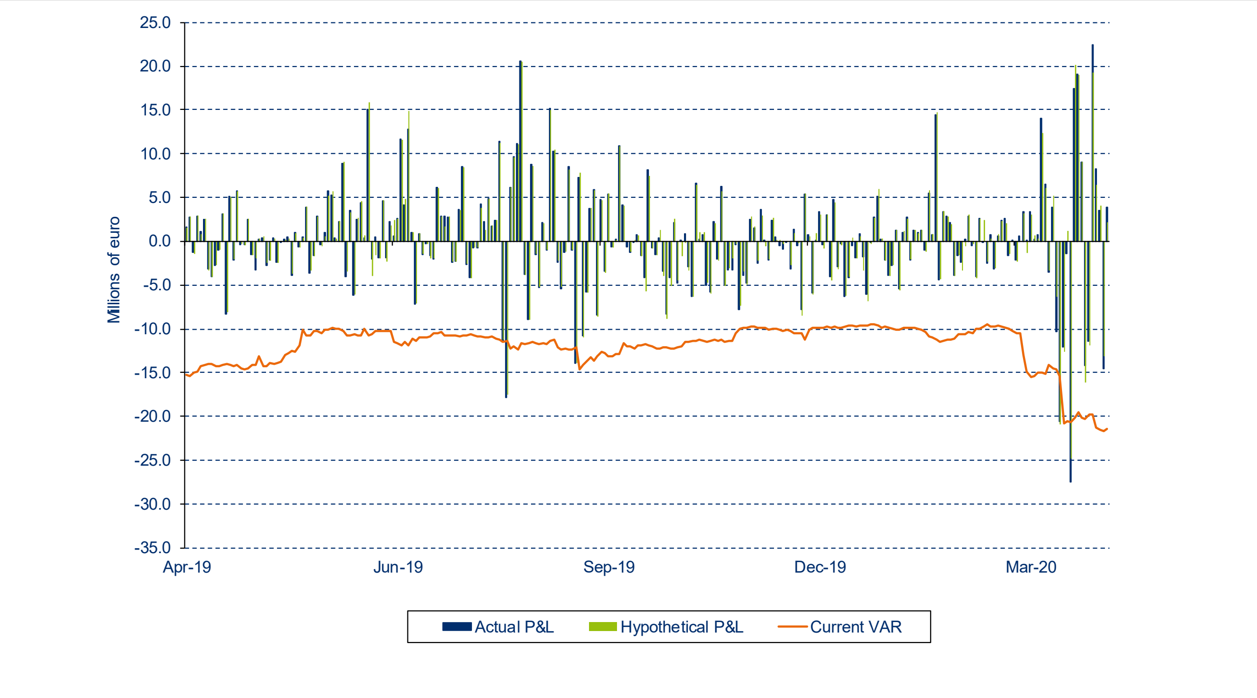
Backtesting

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, for example, fees and financial costs of managing the positions that are regularly reported for management purposes.

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.

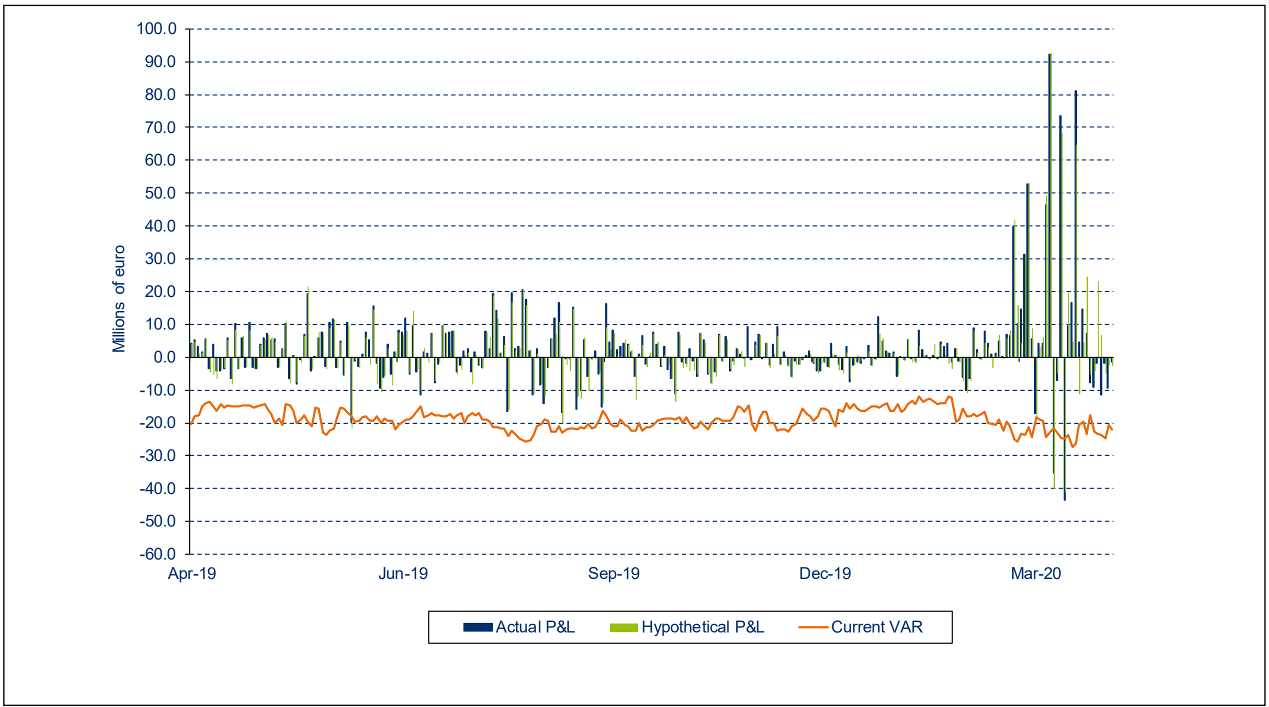
Backtesting in Intesa Sanpaolo

Four backtesting exceptions have been recorded during the last year. As for the exceptions in the third quarter of 2019, the most recent cases, recorded in March, are also primarily due to the interest rate component within the trading book.



Backtesting in Banca IMI

Over the last twelve months there have been three backtesting exceptions. In addition to interest rate volatility, the largest losses are related to the variability of financial sector credit spreads.



BANKING BOOK

In the first three months of 2020, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 58 million euro, with a maximum value of 297 million euro and a minimum value of -272 million euro, a figure that coincides with that at the end of March 2020 (394 million euro at the end of 2019), almost entirely concentrated on the US dollar and euro currencies.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 869 million euro, -908 million euro and 1,681 million euro, respectively, at the end of March 2020. The last of these figures was down on the 1,837 million euro recorded at the end of 2019.

Interest rate risk, measured in terms of VaR, recorded an average of 404 million euro in the first three months of 2020, with a minimum value of 271 million euro and a maximum value of 579 million euro; the latter figure is the same as the value at the end of March 2020 (227 million euro at the end of 2019).
Foreign exchange risk expressed by equity investments in foreign currency (banking book) and measured in terms of VaR averaged 51 million euro in the first three months of 2020, with a minimum value of 35 million euro and a maximum value of 82 million euro, with the latter coinciding with the value at the end of March 2020 (35 million euro at the end of 2019).
Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category recorded an average level of 73 million euro in the first three months of 2020, with a minimum value of 45 million euro and a maximum value of 119 million euro; the latter figure coincides with the value at the end of March 2020 (43 million euro at the end of 2019).

The value at risk figures were up on the end of December 2019 due to a general increase in volatility recorded in March 2020.

The table below shows the changes in the main risk measures during the first quarter of 2020.

(millions of euro)

	1st quarter 2020			31.03.2020	31.12.2019
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	58	-272	297	-272	394
Shift Sensitivity of Net Interest Income -50bp	-964	-908	-999	-908	-1,037
Shift Sensitivity of Net Interest Income +50bp	917	869	945	869	939
Shift Sensitivity of Net Interest Income +100bp	1,778	1,681	1,827	1,681	1,837
Value at Risk - Interest Rate	404	271	579	579	227
Value at Risk Exchange	51	35	82	82	35
Value at Risk - Equity investments in listed companies	73	45	119	119	43

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 2020 impact on shareholders' equity at 31.03.2020	Impact on shareholders' equity at 31.12.2019
Price shock	10%	49	50
Price shock	-10%	-49	-50

LIQUIDITY RISK

In the first three months of 2020, the Group's liquidity position remained within the risk limits provided for in the Group's Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached levels well above the phased-in requirements of the Regulation. Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, has amounted to an average of 152.8%.
At the end of March 2020, the amount of unencumbered HQLA reserves, consisting of cash and deposits held with Central Banks, totalled 91 billion euro (96 billion euro in December 2019). With the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, added in, the Group's unencumbered liquidity reserves totalled 96 billion euro (118 billion euro in December 2019).
The stress tests, in view of the high availability of liquidity reserves, yielded results in excess of the maximum threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period longer than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy – Excluding insurance companies

(millions of euro)

Assets / liabilities at fair value	31.03.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	19,930	33,139	3,229	17,934	28,658	2,822
a) Financial assets held for trading	18,905	32,218	534	17,161	27,622	369
of which: Equities	*488*	*-*	*1*	*713*	*-*	*1*
of which: quotas of UCI	*557*	*2*	*20*	*661*	*2*	*24*
b) Financial assets designated at fair value	-	180	-	-	195	-
c) Other financial assets mandatorily designated at fair value	1,025	741	2,695	773	841	2,453
of which: Equities	*1*	*77*	*196*	*2*	*95*	*179*
of which: quotas of UCI	*1,024*	*104*	*1,447*	*771*	*127*	*1,410*
2. Financial assets designated at fair value through other comprehensive income	62,495	9,230	554	63,815	8,173	422
of which: Equities	*486*	*1,780*	*396*	*611*	*2,048*	*400*
3. Hedging derivatives	-	4,006	14	8	3,008	13
4. Property and equipment	-	-	5,716	-	-	5,748
5. Intangible assets	-	-	-	-	-	-
Total	**82,425**	**46,375**	**9,513**	**81,757**	**39,839**	**9,005**
1. Financial liabilities held for trading	14,723	39,450	203	18,422	26,704	100
2. Financial liabilities designated at fair value	-	762	-	-	4	-
3. Hedging derivatives	-	11,655	3	-	9,284	4
Total	**14,723**	**51,867**	**206**	**18,422**	**35,992**	**104**

The Group's assets designated at fair value (excluding the insurance companies) primarily comprise level 1 instruments (approximately 60% as at 31 March 2020, over 62% at the end of 2019), measured based on market prices, without any discretion by the valuator. Level 3 assets, which are subject to greater discretion in determining fair value, make up approximately 7% of total assets measured at fair value; they have not undergone significant change and are over 60% composed of property and equipment. The increase in Level 2 assets on 31 December 2019 was affected by the increase in exposures to OTC derivatives contracts, which also had an analogous effect on liabilities.

As far as liabilities are concerned, level 3 instruments remain at essentially insignificant levels (well below 1% of total liabilities), whereas level 2 instruments, mostly OTC derivatives, continue to prevail. In March 2020, level 2 liabilities also included certificates issued that had been classified as level 1 at the end of December 2019, on the basis of assessments made regarding the reduction at the end of March compared with the previous months in the number and value of daily trades on the markets of reference (EuroTLX and SeDeX), as described in further detail in the specific paragraph of the Executive Summary provided in this Report.
As at 31 March 2020, liabilities designated at fair value included the newly issued capital protected certificates.

Fair value hierarchy – Insurance companies

(millions of euro)

Assets / liabilities at fair value	31.03.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	470	39	45	284	22	46
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*110*	-	*45*	*119*	-	*46*
2. Financial assets designated at fair value through profit or loss	76,248	141	425	83,816	141	308
of which: Equities	*1,879*	-	-	*2,315*	-	-
of which: quotas of UCI	*67,885*	*104*	-	*76,521*	*99*	-
3. Financial assets available for sale	75,249	3,820	2,044	79,315	2,162	1,902
of which: Equities	*1,338*	-	-	*1,480*	-	-
of which: quotas of UCI	*9,653*	-	*2,032*	*9,917*	-	*1,902*
4. Hedging derivatives	-	175	-	-	206	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**151,967**	**4,175**	**2,514**	**163,415**	**2,531**	**2,256**
1. Financial liabilities held for trading	51	66	-	-	45	-
2. Financial liabilities designated at fair value through profit or loss	-	68,699	-	-	75,886	-
3. Hedging derivatives	-	6	-	-	4	-
Total	**51**	**68,771**	**-**	**-**	**75,935**	**-**

For the insurance companies, over 95% of financial assets designated at fair value are determined based on market prices, without any discretion by the valuator.
Level 3 instruments, which are subject to greater discretion in determining fair value, are essentially stable and continue to account for less than 2% of assets measured at fair value.

All liabilities measured at fair value are level 2.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, came to 3,028 million euro as at 31 March 2020, showing a net decrease of 766 million euro compared to 3,794 million euro as at 31 December 2019. The exposure includes investments in ABSs (asset-backed securities) of 1,640 million euro, in CLOs (collateralised loan obligations) of 1,311 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 77 million euro, for which there were essentially no additional transactions during the period.

(millions of euro)

Accounting categories	31.03.2020				31.12.2019	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	383	559	-	**942**	**1,514**	-572	-37.8
Financial assets mandatorily measured at fair value	-	18	-	**18**	**20**	-2	-10.0
Financial assets measured at fair value through other comprehensive income	540	714	-	**1,254**	**1,485**	-231	-15.6
Financial assets measured at amortised cost	388	349	77	**814**	**775**	39	5.0
Total	**1,311**	**1,640**	**77**	**3,028**	**3,794**	**-766**	**-20.2**

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 (operations implemented by the Group through the subsidiary Duomo Funding Plc).

The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and continuous 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 ABSs and CLOs measured at fair value went from 3,019 million euro in December 2019 to 2,214 million euro in March 2020, a net decrease of 805 million euro, attributable to investments, which were much lower than disposals, mainly made by Banca IMI in the financial assets held for trading portfolio and, to a lesser extent, in the assets measured at fair value through other comprehensive income portfolio, in addition to the investments made by the Parent Company in the financial assets held for trading portfolio.
The exposure to debt securities classified as assets measured at amortised cost amounted to 775 million euro in December 2019, compared with an exposure of 814 million euro in March 2020, and was substantially stable with little significant change.
The investments, primarily made by Banca IMI, mainly consisted of CLOs, most of which with AAA ratings and, to a lesser extent, of ABSs with underlying residential mortgages, essentially relating to the trading book.
From profit or loss perspective, a loss of -39 million euro was posted for 2020, compared to +16 million euro for the first three months of 2019.
This result, which was mainly attributable to trading activities – caption 80 of the income statement – and to exposures in ABSs amounting to -13 million euro and exposures in CLOs amounting to -26 million euro, was solely due to valuation effects, attributable to the downturn in the markets during the period as a result of the COVID-19 health emergency (the result for the first quarter of 2019 was a profit of 4 million euro).
The profits (losses) from financial assets mandatorily measured at fair value was nil, compared to a profit of 12 million euro in the first quarter of 2019.
The exposures to ABSs and CLOs of debt securities classified as assets measured at fair value through other comprehensive income, which related primarily to the subsidiary Banca IMI, recorded a net decrease in fair value of -33 million euro in 2020 through a shareholders' equity reserve (from a positive reserve of 2 million euro in December 2019 to a negative reserve of -31 million euro in March 2020); there was also an impact of +1 million euro from sales during the period (nil figure for the first three months of 2019).
Adjustments of 1 million euro were recognised on the debt securities classified as assets measured at amortised cost in 2020, compared to a nil result for the first quarter of 2019.
With regard to the monoline and non-monoline packages, in line with the situation as at the end of 2019, there were no positions held in 2020.

(millions of euro)

Income statement results broken down by accounting category	31.03.2020				31.03.2019	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	-26	-13	-	**-39**	**4**	-43	
Financial assets mandatorily measured at fair value	-	-	-	**-**	**12**	-12	
Financial assets measured at fair value through other comprehensive income	-	1	-	**1**	**-**	1	-
Financial assets measured at amortised cost	-	-1	-	**-1**	**-**	1	-
Total	**-26**	**-13**	**-**	**-39**	**16**	**-53**	

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 2019 financial statements.
In the first quarter of 2020, under the programme guaranteed by ISP OBG, the securities of the 6th, 15th and 16th series were redeemed in advance in February for a total of 3.484 billion euro and two new series, the 38th and 39th, were issued for an amount of 1.750 billion euro each. In March, the 40th series was issued for an amount of 1.8 billion euro.
The securities, which have a DBRS A High rating, are both floating rate with a maturity of 13 years for the 38th series and 14 years for the 39th and 40th series. The securities, which are listed on the Luxembourg Stock Exchange, were fully subscribed by the Parent Company and are eligible for the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 10th series was partially redeemed (for an amount of 550 million euro), bringing the nominal amount to 550 million euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 27th series was issued in January for an amount of 750 million euro. This security has a Moody's Aa3 rating and is a floating-rate bond with a maturity of 11 years. The

security, which is listed on the Luxembourg Stock Exchange, was fully subscribed by the Parent Company and is eligible for the Eurosystem.

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 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 31 March 2020, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 23.4 billion euro, relating to approximately 1,900 credit lines (as at 31 December 2019 the amount was 20.8 billion euro, also relating to around 1,900 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 2020 Credit Risk Appetite.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 March 2020 amounted to 35 million euro in the trading book and 187 million euro in the banking book, compared to 115 million euro and 194 million euro respectively in December 2019.
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 quarter of 2020, disposals of positions were made for 80 million euro in the trading books aimed at reducing the intrinsic risk of this portfolio in a situation of extreme volatility and downturn in the markets, resulting from the COVID-19 health emergency, by using the greater dynamism allowed for trading books.
The banking book was substantially stable, with no major investments or disposals made during the quarter.
In terms of profit or loss effect, the profits (losses) on trading – caption 80 of the income statement – showed a loss of 22 million euro for the first three months of 2020 compared to a substantially nil result in March 2019. The result for the period included valuation losses of 6 million euro and losses on disposals of 16 million euro.
The net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement – recorded an overall loss of 8 million euro during the period, attributable to valuation components, compared to a profit of 2 million euro in the first three months of 2019.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 March 2020, 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 8,755 million euro (7,694 million euro as at 31 December 2019). The notional value of these derivatives totalled 64,051 million euro (62,528 million euro as at 31 December 2019).
The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 5,759 million euro (5,269 million euro as at 31 December 2019).
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 2,331 million euro as at 31 March 2020 (1,410 million euro as at 31 December 2019). The notional value of these derivatives totalled 21,192 million euro (20,334 million euro as at 31 December 2019).
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 31 March 2020, this led to a negative effect of 90 million euro being recorded under “Profits (Losses) on trading” in the income statement.
As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the consolidated financial statements.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.
The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounted to 1,697 million euro as at 31 March 2020, unchanged compared to 31 December 2019.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
There were no new significant legal disputes during the quarter. With regard to the main pending disputes, details are provided below of the significant developments in the first quarter of 2020; a summary description of these disputes can be found in the Notes prepared for the 2019 Annual Report and for the previous quarters of 2019.

Private banker (Sanpaolo Invest) – In relation to the serious violations committed by a private banker of Sanpaolo Invest, at the end of March the subsidiary received a total of 60 complaints for misappropriations with a total remedy sought of approximately 24 million euro, of which 17 million euro relating solely to the misappropriations and the rest to further damages. The checks conducted by the Internal Audit Function and the Legal function determined total misappropriated amounts of 13 million euro. The company also received another 208 claims for around 20 million euro (195 claims for 18 million euro in December) relating to false accounting and unauthorised transactions, as well as requests for reimbursement of fees for the advanced advisory service.
During the quarter, the subsidiary accepted and reimbursed more than 3 million euro in claims, in addition to the amount of around 1 million euro already paid in 2019. At the same time, the company continued the out-of-court and legal actions against the unlawful beneficiaries for the recovery of the amounts misappropriated.
The risk of disbursement resulting from the illegal acts committed by the private banker is covered by a provision of 10 million euro (of which 2.4 million euro allocated in the first quarter of 2020). This provision was determined on the basis of an assessment of the claims for the confirmed appropriations and the claims relating to incorrect reports and unauthorised transactions, without considering the recovery actions already initiated, the discovery orders issued, and the coverage provided by the insurance policy, which the company promptly triggered in accordance with the policy conditions.

Dargent Lawsuit - During the first quarter of this year, the Bank obtained the refund of the around 23 million euro paid according to the ruling of the Court of Appeal of Colmar in 2018, which was annulled and quashed by the French Court of Cassation in January this year.

Disputes relating to loans in CHF – In March 2020 the Croatian Supreme Court, within a model case proceedings (a Supreme Court proceedings with obligatory effect on lower instance courts with the aim of unifying/harmonising case law), ruled that the conversion agreements concluded between banks and borrowers under the Croatian Conversion Law of 2015 produce legal effects and are valid even in the case when the provisions of the underlying loan agreements on variable interest rate and currency clause are null and void. Such decision is binding on all Croatian courts and will positively impact the individual proceedings related to converted loans in Swiss francs (or indexed to that currency), which should be settled, then, in favour of the Croatian subsidiary.

Disputes arising from the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation – In June 2019, Intesa Sanpaolo sent the Banks in compulsory administrative liquidation a number of letters containing claims for compensation of already incurred or potential damages, which Intesa Sanpaolo is entitled to under the sale agreement (compensation obligation secured by government guarantee).
To enable the Banks in compulsory administrative liquidation to perform a more thorough examination of the claims made, Intesa Sanpaolo, in the letters sent in June 2019, granted an extension of the contractual deadline to 22 November 2019 for contesting the claims made. Subsequently, upon request from the Banks in compulsory administrative liquidation, Intesa Sanpaolo granted a further extension of this initial deadline up to 31 March 2020 and then to 30 November 2020.

IMI/SIR Dispute – You are reminded that following the final judgement establishing the criminal liability of the corrupt judge Metta (and his accomplices Rovelli, Acampora, Pacifico, and Previti), the defendants were ordered to pay compensation for damages, with the determination of those damages referred to the civil courts. Intesa Sanpaolo then brought a case before the Court of Rome to obtain an order of compensation for damages from those responsible.
In its ruling of May 2015, the Court of Rome quantified the financial and non-financial damages for Intesa Sanpaolo and ordered Acampora and Metta – the latter also jointly liable with the Prime Minister’s Office (pursuant to Law no. 117/1988 on the accountability of the judiciary) – to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest accruing from 1 February 2015 to the date of final payment, plus legal expenses. The amount ordered took account of the amounts received in the meantime by the Bank as part of the settlements with the Rovelli family and with the counterparties Previti and Pacifico.
In July 2016, the Rome Court of Appeal stayed the enforcement of the judgment of first instance with respect to the amount in excess of 130 million euro, in addition to ancillary charges and expenses, and adjourned the hearing of the final pleadings to June 2018. As a result of this decision, in December 2016 the Office of the President of the Council of Ministers credited Intesa Sanpaolo with the sum of 131,173,551.58 euro (corresponding to the 130 million euro of the order, in addition to legal

interest and reimbursement of expenses). To avoid dispute, only the exact amount of the order, without applying the gross-up, was demanded and collected.
On 16 April 2020, the ruling of the Court of Appeal of Rome was filed, which essentially upheld the Court's ruling, while reducing the amount of non-financial damages to 8 million euro (compared to 77 million euro that had been quantified by the court of first instance), and set the amount to be paid at 108 million euro, to be considered net of tax, plus legal interest and expenses.
The legal actions to safeguard the Bank's claims are currently being assessed.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
There was a marginal increase in disputes at the Parent Company during the quarter, mainly due to the municipal property tax assessments on property leases discussed below (+122 new cases with a total value of 4.7 million euro and a related provision of 1.4 million euro for interest and penalties).
Law Decree no. 18/2020 (referred to as the "Cure Italy Decree") suspended the deadline for appeals and proceedings in tax disputes from 9 March to 15 April 2020 (later extended to 11 May by Law Decree no. 23/2020, referred to as the "Liquidity Decree"). The deadlines for the activities of the tax authorities relating to settlement, control, assessment, and collection were also suspended from 8 March to 31 May 2020.
The merged company Mediocredito Italiano ("MCI") has municipal property tax disputes outstanding regarding properties where the leases have terminated but it has not yet taken repossession of the properties. The disputes relate to the identification of the liability for municipal property tax for properties owned by the leasing company (now Intesa Sanpaolo) leased out to third parties, where the lease was terminated early due to default by the lessee, or as a result of insolvency proceedings involving the lessee, but without the lessee having returned the property. The subject of dispute is whether the lessee is liable for the municipal property tax rather than the leasing company in the period between the date of termination (or dissolution) of the lease and the date of return of the property to the lessor or the date when the lessor physically takes repossession of the property. The position adopted by Intesa Sanpaolo, namely that the party liable for the tax continues to be the former occupying lessee, is in line with that of all the other Italian leasing companies and the recommendations from the ASSILEA (Italian association of leasing companies). In recent months, there have been a number of Court of Cassation rulings on the subject, mostly unfavourable to banks and leasing companies, but not all unequivocal. Pending firm guidance from the courts of judicial review, the Bank is currently assessing the future conduct to be adopted, both in relation to the next payment deadlines for the municipal property tax and to the existing disputes.
With regard to the cases settled during the period, there was a favourable ruling by the Court of Cassation concerning the former Cassa di Risparmio di Piacenza e Vigevano regarding the registration tax on the capital increase based on the subsidies under the Amato Law amounting to around 0.8 million euro. In addition, the Court of Cassation ruled against the notice of payment of registration tax issued against the merged company Centro Leasing in relation to the sale of a leased property in Rome, in Via Tuscolana. The total claim for tax, penalties and interest was around 2 million euro, already fully provisioned and paid on a provisional basis pending a ruling.
With regard to the Intesa Sanpaolo branches located abroad, there were no changes during the period. Accordingly, we confirm what was reported as at 31 December 2019, namely that tax audits by the Tax Authorities are underway in relation to: i) VAT on the London branch for the years 2016, 2017 and 2018; and ii) federal direct taxes at the New York branch for the tax periods 2015, 2016 and 2017. No claims have been made for the time being.
There were no reports of significant disputes during the first quarter of 2020 at the other Italian Group Companies included in the scope of consolidation and for the international Group Companies.
Internationally, a VAT tax audit was initiated on 2 March 2020 on the Romanian service company Exelia for the periods from 1 December 2014 to 31 December 2019 by the ANAF (Romanian Tax Administration) of Brasov. For the year 2014, the company had already been audited up to 30 November 2014. 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 31 March 2020, the investment portfolios of Group companies, recorded at book value, amounted to 160,661 million euro. Of these, a part amounting to 84,018 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 Unit-linked policies and pension funds and amounted to 76,643 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, 83.7% of assets, i.e. 70,063 million euro, were bonds, whereas equity instruments represented 1.8% of the total and amounted to 1,535 million euro. The remainder (12,127 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14.5%).
The carrying value of derivatives came to approximately 294 million euro, of which 125 million euro relating to effective management derivatives[11], and the remaining portion (169 million euro) is attributable to hedging derivatives.
At the end of the first three months of 2020, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 624 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 9 million euro.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 4,089 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 5.8% of total investments and A bonds approximately 6.1%. Low investment grade securities (BBB) were approximately 85.9% of the total and the portion of speculative grade or unrated was minimal (2.2%).
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 81.5% of the total investments, while financial companies (mostly banks) contributed approximately 10% of exposure and industrial securities made up approximately 8.5%.
At the end of the first quarter of 2020, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 4,066 million euro, with 3,474 million euro due to government issuers and 592 million euro to corporate issuers (financial institutions and industrial companies).

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

Accounting policies

Criteria for the preparation of the Interim Statement

General preparation principles

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

The Interim Statement as at 31 March 2020 has been prepared, in consolidated form, in compliance with the recognition and measurement criteria required by the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.

The accounting standards adopted in preparation of this Consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have remained unchanged compared to those adopted for the Intesa Sanpaolo Group 2019 Annual Report, which should be consulted for the complete details.

In addition, the indications provided by the authorities and the IASB, together with the application decisions made by Intesa Sanpaolo, as described in the Executive Summary, should be consulted on the consequences of the impact of the COVID-19 health emergency.

Some amendments to existing accounting standards, endorsed by the European Commission in 2019, are applicable on a mandatory basis for the first time starting in 2020, but none of them is particularly significant for the Intesa Sanpaolo Group.
A summary of the endorsing Regulations is provided below:

- Regulation 2075/2019: this regulation of 29 November 2019 adopted several amendments to the IFRS relating to references to the Conceptual Framework[12]. The amendments are designed to update the references – in the various IAS/IFRS and interpretations – to the previous framework, by replacing them with the references to the framework revised in March 2018. The Conceptual Framework is not an accounting standard and is therefore not subject to endorsement, whereas this particular document is subject to endorsement because it amends some IAS/IFRS.
- Regulation 2104/2019: this regulation of 29 November 2019 adopts several amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in order to clarify the definition of material information and to improve its understandability. The materiality depends on the nature and significance of the information or both. An entity shall also verify whether an item of information, either individually or in combination with other information, is material in the overall context of the financial statements.

In addition, the Intesa Sanpaolo Group has exercised the option of early adoption of Regulation (EU) 34/2020 of 15 January 2020 for the 2019 Financial Statements, which adopted the document issued by the IASB in September 2019 on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", application of which is mandatory with effect from 1 January 2020. This regulation introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.
As previously disclosed in the 2019 Financial Statements, this relates to recent developments concerning the revision or replacement of certain interest rate benchmarks used to set interest rates in various jurisdictions, such as LIBOR, TIBOR and, in Europe, EONIA and Euribor, based on the indications from the G20 and the Financial Stability Board.
The IASB is working on the possible accounting impacts of the IBOR Reform through a project divided into two phases: the first phase focused on the possible accounting impacts in the period prior to the replacement of the existing benchmark rates with new rates (pre-replacement issues); and the second phase of the project, still under way, involves the analysis of the possible accounting impacts deriving from the application of the new rates and other less urgent issues (replacement issues).
Phase 1 of the project, which ended with the publication of the above-mentioned Regulation 34/2020, introduced several changes to prevent the discontinuation of existing hedges. The IASB considers that, in this scenario, the discontinuation of

[12] The purpose of the conceptual framework is to support the Board in developing standards according to a coherent systematic framework of reference and to provide support to financial statement preparers in developing accounting policies, for example governing events and transactions for which no specific treatment is envisaged in IASs/IFRSs. It is not an accounting standard and therefore is not subject to the endorsement process. Conversely, it is immediately applicable for the Board and IFRIC.

hedges solely due to the effect of uncertainty does not provide useful information for the readers of financial statements and has therefore decided to make some temporary exceptions to the existing regulations to prevent these distortions, which can be applied until the reform of the interest rate benchmarks has been completed.
The IASB has identified several hedge accounting provisions that could be affected by the reform of the benchmarks in the "pre-replacement" phase and introduced a simplification for each of them, assuming that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the interbank rate reform.
The amendments are applicable on a mandatory basis from 1 January 2020, with the option of early application, as exercised by the Intesa Sanpaolo Group, which applied these provisions when preparing its 2019 Financial Statements.

The Interim Statement as at 31 March 2020, drawn up in euro as the functional currency, contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the explanatory notes. They are also complemented by information on significant events which occurred in the period, and on the main risks and uncertainties to be faced in the remaining months of the year.
The amounts indicated in the financial statements and explanatory notes are expressed in millions of euro, unless otherwise specified.
In addition to the amounts for the reporting period, the financial statements also indicate the corresponding comparison figures for the period ended 31 March 2019 for the Income statement and as at 31 December 2019 for the Balance sheet.

Discontinued operations include the "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", to be disposed of in the second quarter of 2020, considering that the decree whereby the Ministry of the Economy and Finance formalised the High Risk Guarantee and Law Decree 99/2017 establish that Intesa Sanpaolo's right to retrocede the "high risk" loans must be exercised within three years of the date of acquisition of the Aggregate Set, a transaction that, as previously reported, was closed on 26 June 2017. The net carrying amounts of these loans have been calculated according to the contractual provisions on the retrocession price, for which 50% of the estimated adjustments is borne by the Banks in compulsory administrative liquidation. An initial tranche of "high risk" loans included among those reclassified as discontinued operations on 31 March 2020 was disposed of on 18 April 2020.
Discontinued operations also include non-performing credit exposures subject to already approved transactions expected to be closed after 31 March 2020, including through contribution to specialised investment funds.
Finally, discontinued operations encompass the pledge lending business line, for which Intesa Sanpaolo reached a sale agreement at the end of 2019, and the acquiring business line, which will be transferred to Nexi, considered a discontinued operation pursuant to IFRS 5 and reclassified among assets held for sale and discontinued operations in respect of both the income statement and balance sheet components.

The Interim Statement as at 31 March 2020 is accompanied by certification of the Manager responsible for preparing the Company's financial reports pursuant to Article 154-bis of the Consolidated Law on Finance, and the consolidated financial statements are subject to a limited review by the Independent Auditors KPMG for the sole purpose of issuing the certification required by Art. 26 (2) of European Union Regulation no. 575/2013 and European Central Bank Decision no. 2015/656.

Scope of consolidation and consolidation methods

Scope of consolidation

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

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

Compared to 31 December 2019, the scope of consolidation did not show significant changes.
The changes concerning the entities under common control – which thus do not have any impact at consolidated level – consist solely of the elimination from the scope of line-by-line consolidation of Pbz Nekretnine D.O.O., merged by incorporation into Pbz Card D.O.O. within the PBZ Group, with effect from 1 January 2020.

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 2019 Intesa Sanpaolo Group Annual Report, to which reference should therefore be made.
The financial statements of the Parent Company and of other companies used to prepare the Interim Statement as at 31 March 2020 refer to the same date.
In certain limited cases, for subsidiaries which are not material, the latest official figures are used.
Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up
using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of non-Eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

The Board of Directors

Milan, 5 May 2020

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

Pursuant to art. 154-bis, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company’s financial reports, Fabrizio Dabbene, hereby declares that the accounting information contained in this Interim Statement as at 31 March 2020 corresponds to corporate records, books and accounts.

Milan, 5 May 2020

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

Attachments

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2019 and adjusted consolidated balance sheet as at 31 December 2019

Reconciliation between published consolidated income statement for the period ended 31 March 2019 and adjusted income statement for the period ended 31 March 2019

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

Reconciliation between published consolidated balance sheet as at 31 December 2019 and restated consolidated balance sheet as at 31 December 2019

Reconciliation between adjusted consolidated income statement for the period ended 31 March 2019 and restated consolidated income statement for the period ended 31 March 2019

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 consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2019 and adjusted consolidated balance sheet as at 31 December 2019

The published consolidated balance sheet as at 31 December 2019 did not require any adjustments.

Reconciliation between the published consolidated income statement for the period ended 31 March 2019 and adjusted consolidated income statement for the period ended 31 March 2019

(millions of euro)

		31.03.2019 Published	Effect of application of IFRS 5 (a)	31.03.2019 Adjusted
10.	Interest and similar income	2,576	-	2,576
	of which: interest income calculated using the effective interest rate method	*2,660*	-	*2,660*
20.	Interest and similar expense	-840	-	-840
30.	**Interest margin**	**1,736**	**-**	**1,736**
40.	Fee and commission income	2,366	-90	2,276
50.	Fee and commission expense	-572	69	-503
60.	**Net fee and commission income**	**1,794**	**-21**	**1,773**
70.	Dividend and similar income	23	-	23
80.	Profits (Losses) on trading	108	1	109
90.	Fair value adjustments in hedge accounting	-20	-	-20
100.	Profits (Losses) on disposal or repurchase of:	368	-	368
	a) financial assets measured at amortised cost	*-14*	-	*-14*
	b) financial assets measured at fair value through other comprehensive income	*263*	-	*263*
	c) financial liabilities	*119*	-	*119*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	9	-	9
	a) financial assets and liabilities designated at fair value	*-57*	-	*-57*
	b) other financial assets mandatorily measured at fair value	*66*	-	*66*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,098	-	1,098
120.	**Net interest and other banking income**	**5,116**	**-20**	**5,096**
130.	Net losses/recoveries for credit risks associated with:	-412	-	-412
	a) financial assets measured at amortised cost	*-405*	-	*-405*
	b) financial assets measured at fair value through other comprehensive income	*-7*	-	*-7*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-3	-	-3
140.	Profits (Losses) on changes in contracts without derecognition	-1	-	-1
150.	**Net income from banking activities**	**4,700**	**-20**	**4,680**
160.	Net insurance premiums	2,505	-	2,505
170.	Other net insurance income (expense)	-3,275	-	-3,275
180.	**Net income from banking and insurance activities**	**3,930**	**-20**	**3,910**
190.	Administrative expenses:	-2,377	1	-2,376
	a) personnel expenses	*-1,402*	-	*-1,402*
	b) other administrative expenses	*-975*	*1*	*-974*
200.	Net provisions for risks and charges	26	-	26
	a) commitments and guarantees given	*31*	-	*31*
	b) other net provisions	*-5*	-	*-5*
210.	Net adjustments to / recoveries on property and equipment	-133	-	-133
220.	Net adjustments to / recoveries on intangible assets	-162	-	-162
230.	Other operating expenses (income)	210	-	210
240.	**Operating expenses**	**-2,436**	**1**	**-2,435**
250.	Profits (Losses) on investments in associates and companies subject to joint control	2	-	2
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**	**1,496**	**-19**	**1,477**
300.	Taxes on income from continuing operations	-448	5	-443
310.	**Income (Loss) after tax from continuing operations**	**1,048**	**-14**	**1,034**
320.	Income (Loss) after tax from discontinued operations	-	14	14
330.	**Net income (loss)**	**1,048**	**-**	**1,048**
340.	Minority interests	2	-	2
350.	**Parent Company’s net income (loss)**	**1,050**	**-**	**1,050**

(a) Income Statement figures of the first three months of 2019 relating to the business line to be contributed to Nexi, pursuant to the agreement signed in December 2019.

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

Reconciliation between published consolidated balance sheet as at 31 December 2019 and restated consolidated balance sheet as at 31 December 2019

The published consolidated balance sheet as at 31 December 2019 did not require any restatement.

Reconciliation between adjusted consolidated income statement for the period ended 31 March 2019 and restated consolidated income statement for the period ended 31 March 2019

(millions of euro)

		31.03.2019 Adjusted	Servicing UTP (a)	31.03.2019 Restated
10.	Interest and similar income	2,576	-	2,576
	of which: interest income calculated using the effective interest rate method	*2,660*	-	*2,660*
20.	Interest and similar expense	-840	-	-840
30.	**Interest margin**	**1,736**	**-**	**1,736**
40.	Fee and commission income	2,276	-	2,276
50.	Fee and commission expense	-503	-	-503
60.	**Net fee and commission income**	**1,773**	**-**	**1,773**
70.	Dividend and similar income	23	-	23
80.	Profits (Losses) on trading	109	-	109
90.	Fair value adjustments in hedge accounting	-20	-	-20
100.	Profits (Losses) on disposal or repurchase of:	368	-	368
	a) financial assets measured at amortised cost	*-14*	-	*-14*
	b) financial assets measured at fair value through other comprehensive income	*263*	-	*263*
	c) financial liabilities	*119*	-	*119*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	9	-	9
	a) financial assets and liabilities designated at fair value	*-57*	-	*-57*
	b) other financial assets mandatorily measured at fair value	*66*	-	*66*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,098	-	1,098
120.	**Net interest and other banking income**	**5,096**	**-**	**5,096**
130.	Net losses/recoveries for credit risks associated with:	-412	-	-412
	a) financial assets measured at amortised cost	*-405*	-	*-405*
	b) financial assets measured at fair value through other comprehensive income	*-7*	-	*-7*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-3	-	-3
140.	Profits (Losses) on changes in contracts without derecognition	-1	-	-1
150.	**Net income from banking activities**	**4,680**	**-**	**4,680**
160.	Net insurance premiums	2,505	-	2,505
170.	Other net insurance income (expense)	-3,275	-	-3,275
180.	**Net income from banking and insurance activities**	**3,910**	**-**	**3,910**
190.	Administrative expenses:	-2,376	-27	-2,403
	a) personnel expenses	*-1,402*	-	*-1,402*
	b) other administrative expenses	*-974*	*-27*	*-1,001*
200.	Net provisions for risks and charges	26	-	26
	a) commitments and guarantees given	*31*	-	*31*
	b) other net provisions	*-5*	-	*-5*
210.	Net adjustments to / recoveries on property and equipment	-133	-	-133
220.	Net adjustments to / recoveries on intangible assets	-162	-	-162
230.	Other operating expenses (income)	210	-	210
240.	**Operating expenses**	**-2,435**	**-27**	**-2,462**
250.	Profits (Losses) on investments in associates and companies subject to joint control	2	-	2
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**	**1,477**	**-27**	**1,450**
300.	Taxes on income from continuing operations	-443	9	-434
310.	**Income (Loss) after tax from continuing operations**	**1,034**	**-18**	**1,016**
320.	Income (Loss) after tax from discontinued operations	14	-	14
330.	**Net income (loss)**	**1,048**	**-18**	**1,030**
340.	Minority interests	2	18	20
350.	**Parent Company’s net income (loss)**	**1,050**	**-**	**1,050**

(a) Effect related to the fees due to Prelios following the UTP loans servicing agreement, effective from the end of 2019.

Restated consolidated financial statements

Restated consolidated balance sheet

The published consolidated balance sheet as at 31 December 2019 did not require any restatement.

Restated consolidated income statement

(millions of euro)

		31.03.2020	31.03.2019 Restated	Changes amount	%
10.	Interest and similar income	2,427	2,576	-149	-5.8
	of which: interest income calculated using the effective interest rate method	*2,525*	*2,660*	*-135*	*-5.1*
20.	Interest and similar expense	-686	-840	-154	-18.3
30.	**Interest margin**	**1,741**	**1,736**	**5**	**0.3**
40.	Fee and commission income	2,279	2,276	3	0.1
50.	Fee and commission expense	-521	-503	18	3.6
60.	**Net fee and commission income**	**1,758**	**1,773**	**-15**	**-0.8**
70.	Dividend and similar income	20	23	-3	-13.0
80.	Profits (Losses) on trading	-134	109	-243	
90.	Fair value adjustments in hedge accounting	-17	-20	-3	-15.0
100.	Profits (Losses) on disposal or repurchase of:	914	368	546	
	a) financial assets measured at amortised cost	*-22*	*-14*	*8*	*57.1*
	b) financial assets measured at fair value through other comprehensive income	*510*	*263*	*247*	*93.9*
	c) financial liabilities	*426*	*119*	*307*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	132	9	123	
	a) financial assets and liabilities designated at fair value	*221*	*-57*	*278*	
	b) other financial assets mandatorily measured at fair value	*-89*	*66*	*-155*	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	225	1,098	-873	-79.5
120.	**Net interest and other banking income**	**4,639**	**5,096**	**-457**	**-9.0**
130.	Net losses/recoveries for credit risks associated with:	-388	-412	-24	-5.8
	a) financial assets measured at amortised cost	*-374*	*-405*	*-31*	*-7.7*
	b) financial assets measured at fair value through other comprehensive income	*-14*	*-7*	*7*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-27	-3	24	
140.	Profits (Losses) on changes in contracts without derecognition	-4	-1	3	
150.	**Net income from banking activities**	**4,220**	**4,680**	**-460**	**-9.8**
160.	Net insurance premiums	2,471	2,505	-34	-1.4
170.	Other net insurance income (expense)	-2,278	-3,275	-997	-30.4
180.	**Net income from banking and insurance activities**	**4,413**	**3,910**	**503**	**12.9**
190.	Administrative expenses:	-2,375	-2,403	-28	-1.2
	a) personnel expenses	*-1,351*	*-1,402*	*-51*	*-3.6*
	b) other administrative expenses	*-1,024*	*-1,001*	*23*	*2.3*
200.	Net provisions for risks and charges	-323	26	-349	
	a) commitments and guarantees given	*4*	*31*	*-27*	*-87.1*
	b) other net provisions	*-327*	*-5*	*322*	
210.	Net adjustments to / recoveries on property and equipment	-129	-133	-4	-3.0
220.	Net adjustments to / recoveries on intangible assets	-179	-162	17	10.5
230.	Other operating expenses (income)	141	210	-69	-32.9
240.	**Operating expenses**	**-2,865**	**-2,462**	**403**	**16.4**
250.	Profits (Losses) on investments in associates and companies subject to joint control	9	2	7	
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	7	-	7	
290.	**Income (Loss) before tax from continuing operations**	**1,564**	**1,450**	**114**	**7.9**
300.	Taxes on income from continuing operations	-439	-434	5	1.2
310.	**Income (Loss) after tax from continuing operations**	**1,125**	**1,016**	**109**	**10.7**
320.	Income (Loss) after tax from discontinued operations	21	14	7	50.0
330.	**Net income (loss)**	**1,146**	**1,030**	**116**	**11.3**
340.	Minority interests	5	20	-15	-75.0
350.	**Parent Company's net income (loss)**	**1,151**	**1,050**	**101**	**9.6**

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Assets		31.03.2020	31.12.2019
Due from banks		**67,440**	**47,170**
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	67,433	47,164
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	7	6
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers		**404,900**	**395,229**
Loans to customers measured at amortised cost		***403,626***	***394,093***
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	398,213	388,881
- Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-676	-670
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	6,089	5,882
Loans to customers at fair value through other comprehensive income and through profit or loss		***1,274***	***1,136***
Caption 20a (partial)	Financial assets held for trading - Loans to customers	22	24
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	838	748
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	414	364
Financial assets measured at amortised cost which do not constitute loans		**29,353**	**25,888**
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	2,036	1,863
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	27,317	24,025
Financial assets at fair value through profit or loss		**55,431**	**48,636**
Caption 20a (partial)	Financial assets held for trading	51,635	45,128
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	180	195
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	3,616	3,313
Financial assets at fair value through other comprehensive income		**71,865**	**72,046**
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	71,865	72,046
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		**158,656**	**168,202**
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	158,656	168,202
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**567**	**612**
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	567	612
Investments in associates and companies subject to joint control		**1,273**	**1,240**
Caption 70	Investments in associates and companies subject to joint control	1,273	1,240
Property, equipment and intangible assets		**16,966**	**17,153**
Assets owned		***15,501***	***15,655***
Caption 90 (partial)	Property and equipment	7,288	7,380
Caption 100	Intangible assets	9,138	9,211
- Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-925	-936
Rights of use acquired under leases		***1,465***	***1,498***
Caption 90 (partial)	Property and equipment	1,465	1,498
Tax assets		**15,983**	**15,467**
Caption 110	Tax assets	15,983	15,467
Non-current assets held for sale and discontinued operations		**765**	**494**
Caption 120	Non-current assets held for sale and discontinued operations	765	494
Other assets		**24,702**	**23,965**
Caption 10	Cash and cash equivalents	8,233	9,745
+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	676	670
Caption 50	Hedging derivatives	4,020	3,029
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	2,199	1,569
Caption 80	Technical insurance reserves reassured with third parties	28	28
+Caption 100 (partial)	Intangible assets (concession rights - intangible component)	925	936
Caption 130	Other assets	8,621	7,988
Total Assets		**847,901**	**816,102**

(millions of euro)

Liabilities			31.03.2020	31.12.2019
Due to banks at amortised cost			**120,110**	**103,316**
	Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	120,116	103,324
	- Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-6	-8
Due to customers at amortised cost and securities issued			**424,533**	**414,578**
	Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	344,067	331,181
	Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	81,921	84,877
	- Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,455	-1,480
Financial liabilities held for trading			**54,376**	**45,226**
	Caption 20	Financial liabilities held for trading	54,376	45,226
Financial liabilities designated at fair value			**762**	**4**
	Caption 30	Financial liabilities designated at fair value	762	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39			**818**	**818**
	Caption 15	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	826
	- Caption 15 (partial)	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)	-8	-8
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39			**68,822**	**75,935**
	Caption 35	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,822	75,935
Tax liabilities			**2,580**	**2,321**
	Caption 60	Tax liabilities	2,580	2,321
Liabilities associated with non-current assets held for sale and discontinued operations			**50**	**41**
	Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	50	41
Other liabilities			**27,028**	**23,381**
	Caption 40	Hedging derivatives	11,658	9,288
	Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	658	527
	Caption 80	Other liabilities	13,243	12,070
	Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	6	8
	Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,455	1,480
	Caption 15 (partial)	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)	8	8
Technical reserves			**86,939**	**89,136**
	Caption 110	Technical reserves	86,939	89,136
Allowances for risks and charges			**5,134**	**5,131**
	Caption 90	Employee termination indemnities	1,037	1,134
	Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	477	482
	Caption 100 b)	Allowances for risks and charges - Post-employment benefits	232	232
	Caption 100 c)	Allowances for risks and charges - Other allowances for risks and charges	3,388	3,283
Share capital			**9,086**	**9,086**
	Caption 170	Share capital	9,086	9,086
Reserves			**42,380**	**38,250**
	Caption 130	Redeemable shares	-	-
	Caption 150	Reserves	17,408	13,279
	Caption 160	Share premium reserve	25,075	25,075
	- Caption 180	Treasury shares	-103	-104
Valuation reserves			**-1,833**	**-157**
	Caption 120	Valuation reserves	-1,833	-157
Valuation reserves pertaining to insurance companies			**182**	**504**
	Caption 125	Valuation reserves pertaining to insurance companies	182	504
Equity instruments			**5,550**	**4,103**
	Caption 140	Equity instruments	5,550	4,103
Minority interests			**233**	**247**
	Caption 190	Minority interests	233	247
Net income (loss)			**1,151**	**4,182**
	Caption 200	Net income (loss) (+/-)	1,151	4,182
Total Liabilities and Shareholders' Equity			**847,901**	**816,102**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

		31.03.2020	31.03.2019 Restated
Net interest income		**1,747**	**1,756**
Caption 30	Interest margin	1,741	1,736
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	15	25
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-	12
+ Caption 80 (partial)	Hedging swap differentials	-27	-29
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-4	-8
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-	-
- Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	-4	-8
- Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	26	28
Net fee and commission income		**1,844**	**1,865**
Caption 60	Net fee and commission income	1,758	1,773
- Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	53	46
- Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	1	1
- Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	46	51
+ Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	-5	-
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-9	-6
Income from insurance business		**312**	**291**
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	225	1,098
Caption 160	Net insurance premiums	2,471	2,505
Caption 170	Other net insurance income (expense)	-2,278	-3,275
+ Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	-21	-2
+ Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	-53	-46
+ Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	4	8
+ Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-35	3
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	-1	-
Profits (Losses) on financial assets and liabilities designated at fair value		**994**	**458**
Caption 80	Profits (Losses) on trading	-134	109
Caption 90	Fair value adjustments in hedge accounting	-17	-20
Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	510	263
Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	426	119
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	221	-57
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	-89	66
+ Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	-46	-51
+ 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)	20	23
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	8	-
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-	-12
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	35	-3
- Caption 80 (partial)	Hedging swap differentials	27	29
- Caption 90 (partial)	Fair value adjustments in hedge accounting - Reclassification of operations of entities not subject to management and coordination	4	-
- 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)	29	-
- 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

(millions of euro)

		31.03.2020	31.03.2019 Restated
Other operating income (expenses)		**-15**	**-1**
Caption 70	Dividend and similar income	20	23
Caption 230	Other operating expenses (income)	141	210
+ Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	-26	-28
+ Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	-1	-1
+ Caption 90 (partial)	Fair value adjustments in hedge accounting - Reclassification of operations of entities not subject to management and coordination	-4	-
- 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)	-20	-23
+ 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 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-4	-7
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-183	-183
- Caption 230 (partial)	Other operating expenses (income) (Valuation effects of other assets)	61	-
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-
- Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	10	8
Operating income		**4,882**	**4,369**
Personnel expenses		**-1,355**	**-1,387**
Caption 190 a)	Personnel expenses	-1,351	-1,402
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-8	7
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	4	8
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-	-
Other administrative expenses		**-550**	**-583**
Caption 190 b)	Other administrative expenses	-1,024	-1,001
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	5	6
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	273	216
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	9	6
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	183	183
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	4	7
Adjustments to property, equipment and intangible assets		**-264**	**-260**
Caption 210	Net adjustments to / recoveries on property and equipment	-129	-133
Caption 220	Net adjustments to / recoveries on intangible assets	-179	-162
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	1	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	5	3
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	5	4
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	17	11
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-	1
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	16	16
Operating costs		**-2,169**	**-2,230**
Operating margin		**2,713**	**2,139**
Net adjustments to loans		**-403**	**-369**
Caption 140	Profits/losses from changes in contracts without derecognition	-4	-1
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	4	31
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-30	-15
+ 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)	-	-
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-382	-399
+ 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)	5	-3
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-3	1
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	7	17

(millions of euro)

		31.03.2020	31.03.2019 Restated
Other net provisions and net impairment losses on other assets		**-419**	**-30**
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-27	-3
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-327	-5
Caption 260	Valuation differences on property, equipment and intangible assets measured at fair value	-	-
+ 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)	2	-3
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	1	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-11	-8
+ 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)	-15	-
- Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	21	2
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration)	-	2
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	-	-8
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-	-1
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-
+ Caption 230 (partial)	Other operating expenses (income) (Valuation effects of other assets)	-61	-
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-2	-6
Other income (expenses)		**3**	**6**
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	9	2
Caption 280	Profits (Losses) on disposal of investments	7	-
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	8	1
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	-	-
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	-8	-
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	-	8
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	-5	-3
+ Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-10	-8
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	2	6
Income (Loss) from discontinued operations		**29**	**19**
Caption 320	Income (Loss) after tax from discontinued operations	21	14
+ Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	8	5
Gross income (loss)		**1,923**	**1,765**
Taxes on income		**-545**	**-527**
Caption 300	Taxes on income from continuing operations	-439	-434
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-8	-5
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-4	-8
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-12	-18
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-82	-62
Charges (net of tax) for integration and exit incentives		**-15**	**-22**
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	8	-7
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-5	-6
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	-	-2
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	-5	-4
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-17	-11
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	4	8

(millions of euro)

		31.03.2020	31.03.2019 Restated
Effect of purchase price allocation (net of tax)		**-26**	**-40**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-15	-25
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-7	-17
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-16	-16
+ Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	12	18
Levies and other charges concerning the banking industry (net of tax)		**-191**	**-146**
+ 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
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-273	-216
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	82	62
Impairment (net of tax) of goodwill and other intangible assets		**-**	**-**
Caption 270	Goodwill impairment	-	-
Minority interests		**5**	**20**
Caption 340	Minority interests	5	20
Net income (loss)		**1,151**	**1,050**

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
In determining credit risk, the CCF is the factor used to transform the EAD (Exposure At Default) of an off-balance sheet exposure into that of an on-balance sheet exposure. Where the Bank does not use internal models to estimate those factors (internal CCF), these are indicated as follows by the supervisory rules (regulatory CCF):
a) 100 % if it is a full risk item;
b) 50 % if it is a medium-risk item;
c) 20 % if it is a medium/low-risk item;
d) 0 % if it is a low-risk item.

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

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.
Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

CLO - Collateralised Loan Obligation
CDOs backed by a portfolio of corporate loans.

CMBS - Commercial Mortgage-Backed Securities
securitisationsDebt instruments backed by mortgages on commercial real estate.

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

Commercial paper
Short-term notes issued in order to collect funds from third-party underwriters as an alternative to other forms of indebtedness.

Consumer ABS
ABS whose collateral is made up of consumer credits.

Core Business
Main area of business on which company's strategies and policies are focused.

Core deposits
"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the normally lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which, under normal conditions, pays less than the market interest rate.

Common Equity Tier 1 Ratio (CET1 Ratio)
The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

Corporate
Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

Cost/income ratio
Economic indicator consisting of the ratio of operating costs to net operating income.

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

Covenant
A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

Coverage ratio
It represents the percentage coverage of the value adjustment with respect to the gross exposure.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CPPI (Constant Proportion Insurance Portfolio)
A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
"Past due exposures" are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank's risk appetite.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

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

CRP (Country Risk Premium)
Country risk premium; it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a particular country (namely the risk associated with financial, political and monetary instability).

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

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

Reclassification date
The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Default
Declared inability to honour one's debts and/or make the relevant interest payments.

Delinquency
Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

Delta
Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

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

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

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

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

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

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

EAD – Exposure At Default
Relating to on- or off-balance sheet positions, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

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

EDF – Expected Default Frequency
Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

EHQLA (Extremely High Quality Liquid Asset)
Encumbered assets that are notionally eligible to be classified as extremely high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

Embedded value
A measure of the underlying value of a life insurance company. It is the sum of the company's adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

Eonia (Euro overnight index average)
Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the Euro area.

Equity hedge / long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivative contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

ERP (Equity Risk Premium)
Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected Credit Losses (ECL)
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-Month Expected Loss
Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fair Value Option (FVO)
The Fair Value Option is an option for classifying a financial instrument.
When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

"G" factor ("g" growth rate)
It is the factor used for perpetuity projection of cash flows in order to calculate "Terminal value".

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

FIFO: First In First Out
Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See "Forwards".

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

FVTOCI: Fair Value Through Other Comprehensive Income
Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders' equity) and not through profit or loss.

FVTPL: Fair Value Through Profit or Loss
Method of recognition of changes in the fair value of financial assets through profit or loss

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

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

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

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Grandfathering
The new composition of own funds under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under Basel 3, will be gradually eliminated (referred to as the grandfathering period).

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge funds
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELs – Home Equity Loans
Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

HQLA (High Quality Liquid Asset)
Encumbered assets that are notionally eligible to be classified as high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

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).

IRC – Incremental Risk Charge
The maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level.

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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