INTESA SANPAOLO

Half-yearly report as at 30 June 2020

This is an English translation of the original Italian document "Relazione semestrale al 30 giugno 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.

Half-yearly report as at 30 June 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 9,997,913,905.72 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.

Contents

THE INTESA SANPAOLO GROUP

The Intesa Sanpaolo Group: presence in Italy

Banks

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
873	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 30 June 2020

Product Companies

INTESA SANPAOLO VITA
FIDEURAM VITA
INTESA SANPAOLO RBM SALUTE
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

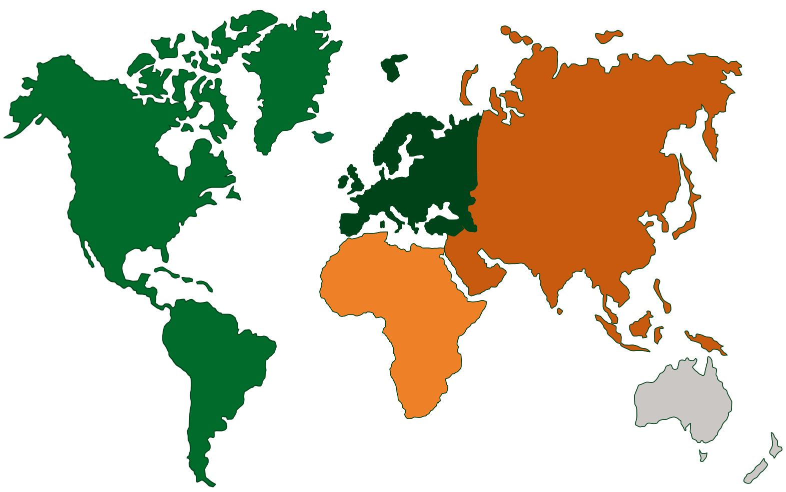
Representative Offices
Sydney

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	177
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	46
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 30 June 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 | 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

Half-yearly report on operations

Introduction

The Half-yearly Report as at 30 June 2020 is made up of the Half-yearly report on operations and the Half-yearly condensed consolidated financial statements including the financial statements and related explanatory notes.
As illustrated in detail in the chapter "Accounting Policies", the Half-yearly condensed consolidated financial statements have been prepared in compliance with art. 154-ter of Legislative Decree 58 of 24 February 1998 and in application of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as provided for by European Regulation 1606 of 19 July 2002.
In particular, the Half-yearly condensed consolidated financial statements as at 30 June 2020, subject to limited review, have been drawn up in compliance with IAS 34 requirements, which regulate interim reports.
To support the comments on results for the period, the Explanatory notes to the Half-yearly condensed consolidated financial statements also present and illustrate reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, envisaged by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments.
The Half-yearly report on operations and the Half-yearly condensed consolidated financial statements contain financial information – for example, figures on quarterly development, and other alternative performance measures – not directly attributable to the financial statements.
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 Half-yearly Report, nor have any changes been made to the measures normally used.
Please note that the website of Intesa Sanpaolo, at www.group.intesasanpaolo.com, contains the press releases issued during the period together with other financial documents.

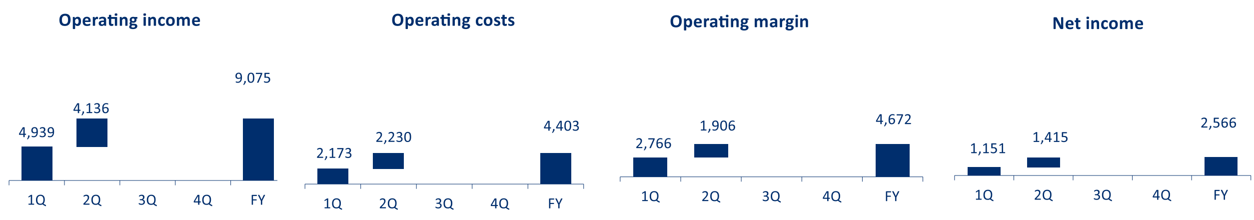
Overview of the first half 2020

Income statement figures and Alternative Performance Measures

Consolidated income statement figures (millions of euro)	30.06.2020	30.06.2019	Changes amount	Changes %
Net interest income	3,497	3,517	-20	-0.6
Net fee and commission income	3,588	3,830	-242	-6.3
Income from insurance business	736	627	109	17.4
Profits (Losses) on financial assets and liabilities designated at fair value	1,257	1,092	165	15.1
Operating income	9,075	9,075	-	-
Operating costs	-4,403	-4,531	-128	-2.8
Operating margin	4,672	4,544	128	2.8
Net adjustments to loans	-1,801	-923	878	95.1
Income (Loss) from discontinued operations	1,163	41	1,122	
Net income (loss)	2,566	2,266	300	13.2

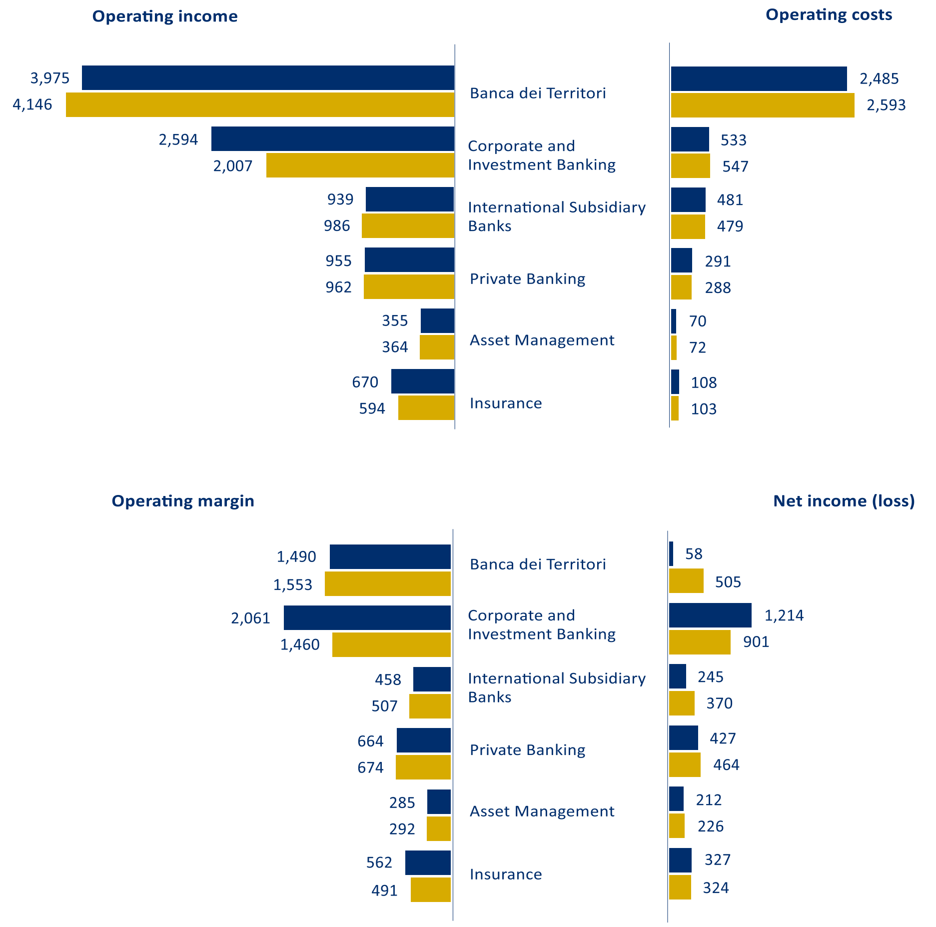
Figures restated, where necessary and material, considering the changes in the scope of consolidation.

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



30.06.2020
30.06.2019

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)

	30.06.2020	31.12.2019	Changes amount	Changes %
Financial assets	167,283	146,570	20,713	14.1
Financial assets pertaining to insurance companies measured pursuant to IAS 39	166,077	168,882	-2,805	-1.7
Loans to customers	403,337	395,229	8,108	2.1
Total assets	858,648	816,570	42,078	5.2
Direct deposits from banking business	437,806	425,512	12,294	2.9
Direct deposits from insurance business and technical reserves	163,903	165,945	-2,042	-1.2
Indirect deposits:	523,454	534,456	-11,002	-2.1
of which: Assets under management	350,689	358,105	*-7,416*	*-2.1*
Shareholders' equity	58,582	55,968	2,614	4.7

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

	Loans to customers 30.06.2020	Loans to customers 31.12.2019	Direct deposits from banking business 30.06.2020	Direct deposits from banking business 31.12.2019
Banca dei Territori	201,715	194,358	213,285	199,256
Corporate and Investment Banking	141,627	131,884	85,108	86,850
International Subsidiary Banks	34,806	34,038	44,109	43,420
Private Banking	9,100	9,329	38,714	39,537
Asset Management	239	435	9	10
Insurance	-	-	-	-

(*) Excluding Corporate Centre

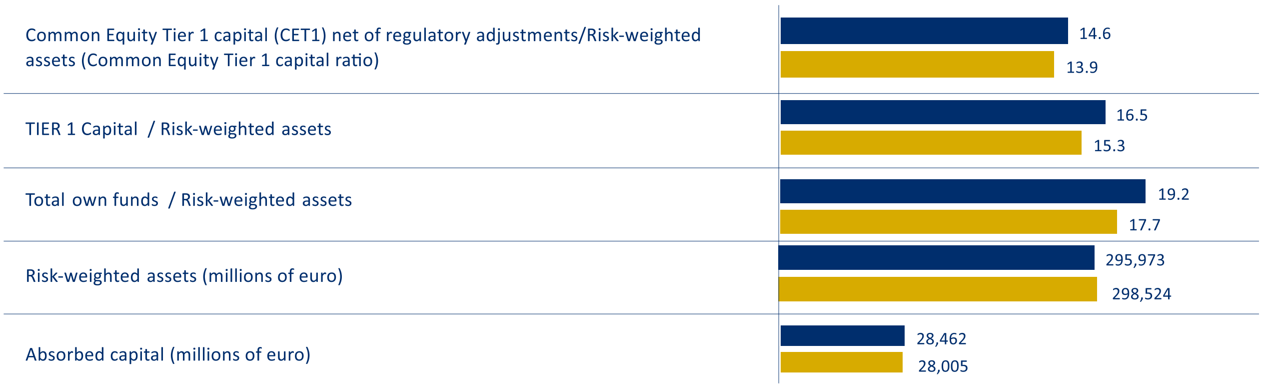
Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

30.06.2020

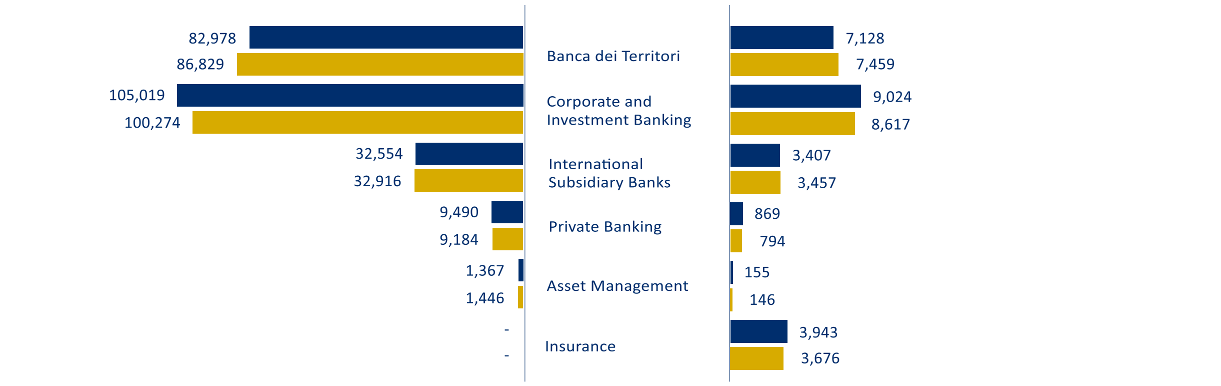
31.12.2019

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)



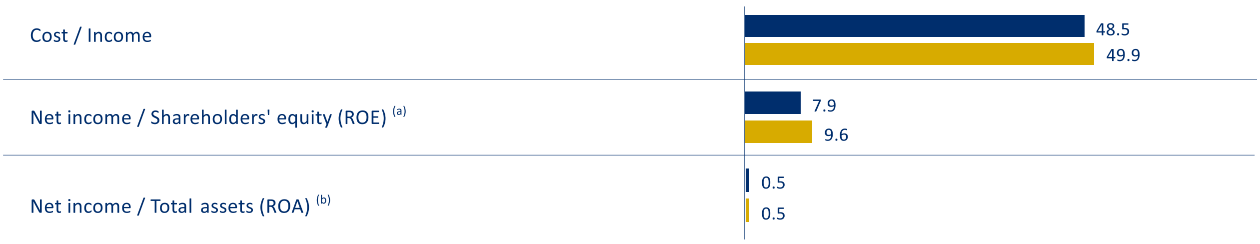
(*) Excluding Corporate Centre

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

30.06.2020

31.12.2019

Consolidated profitability ratios (%)



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

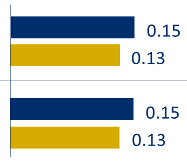
(a) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period. The figure for the period has been annualised, except for the income components of 2020 attributable to the business line consisting of the acquiring activities transferred to Nexi during the first half of 2020.

(b) Ratio between net income and total assets. The figure for the period has been annualised, except for the income components of 2020 attributable to the business line consisting of the acquiring activities transferred to Nexi during the first half of 2020.

Earnings per share (euro)

Basic earnings per share (basic EPS) [c]

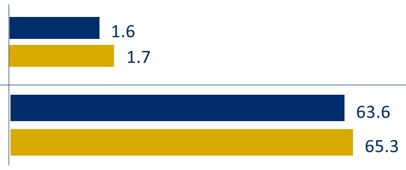
Diluted earnings per share (diluted EPS) [d]



Consolidated risk ratios (%)

Net bad loans / Loans to customers

Cumulated adjustments to bad loans / Gross bad loans to customers



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

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

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

Operating structure	30.06.2020	31.12.2019	Changes amount
Number of employees (e)	**87,996**	**89,102**	**-1,106**
Italy	64,991	65,705	-714
Abroad	23,005	23,397	-392
Number of financial advisors	**4,959**	**4,972**	**-13**
Number of branches (f)	**4,719**	**4,799**	**-80**
Italy	3,680	3,752	-72
Abroad	1,039	1,047	-8

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

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

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

30.06.2020

30.06.2019 (Income statement figures)
31.12.2019 (Balance sheet figures)

The first half of 2020

The macroeconomic scenario in the context of the COVID-19 epidemic

The economy and the financial and currency markets

The COVID-19 pandemic has resulted in a short but deep global recession. In January and February the effects were concentrated in China and impacted the rest of the world mainly through trade. However, between February and March, the epidemic spread to Europe and the United States and the contagion then went on to affect the emerging countries. All the countries affected by the virus had to adopt containment measures based on social distancing, the closure of many businesses, and restrictions on travel and tourism; the advanced countries whose health systems were least equipped to deal with the emergency were forced to impose longer suspensions of production activities. Even where less restrictive measures have been adopted, economic activity has been well below the norm, resulting in an almost total standstill for air transport, tourism and social consumption.
In Europe the impact was felt in March, first in Italy and then in the rest of the continent, reaching its peak in the first half of April. The highly uncertain outlook for the pandemic 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 restrictions were gradually eased from the end of April to the beginning of June, but with limitations that continued to affect travel between countries and social gatherings. The impact on GDP was unprecedented: for the Eurozone, a fall of -3.6% QoQ in the first quarter was followed by a double-digit decline in the second quarter (-12.1%). However, several indicators (mobility measures, electricity consumption, motorway tolls and confidence surveys) indicate that there was a strong recovery in economic activity across Europe in May and June.
In Italy, the fall in GDP in the first quarter was larger than the average (-5.4% QoQ), due to the longer duration of the lockdown. In the second quarter, GDP fell by 12.4% QoQ. Despite the freeze on layoffs and extensive use of the redundancy scheme, the crisis has had a strong impact on the labour market: in June 577 thousand people had lost their jobs since January, of which more than two thirds were temporary workers. This is also one of the reasons why the social effects are being felt more by workers under 35 years of age.
The prospect 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 Italian government issued several legislative stimulus measures, and by June the cumulative financing requirements of the government sector were already 62 billion euro more than in 2019. The government estimates that the 2020 deficit will be more than 10% of GDP.
The European Central Bank has supported the fiscal effort by implementing an extraordinary expansion of the securities purchasing programmes, including the launch of a specific temporary programme (PEPP), 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 European Union has also launched several financial support measures: an ESM (European Stability Mechanism) credit line called PCS, which can reach up to 2% of each member state's GDP; a fund (SURE) for the refinancing of employment support programmes; and a guarantee fund for loans granted by the European Investment Bank. In addition, agreement has been reached on the launch of a new recovery plan, Next Generation EU, which can finance reforms and projects, aligned to the EU's priorities for action, through grants or soft loans.

The first half of 2020 was characterised by very different market phases. In the first two months of the year, the main stock markets (except for China) generally performed well, peaking shortly after mid-February.
The sudden onset of the health emergency in the Western countries, first in Italy, then in the rest of Europe and the United States, led to a rapid and severe deterioration in investor expectations, triggering a sharp adjustment in the stock indices, with lows for the period around mid-March.
Subsequently, the prompt announcement of major economic support plans by national governments and the European Union, and the highly expansionary measures implemented by central banks, helped to reduce risk premiums, supporting a period of recovery in the stock markets through to the end of the half year.
The company reporting season for the first quarter of 2020 was disappointing in the Eurozone, not only because of the sharp slowdown in earnings as a result of the start of the lockdown, but above all because many companies suspended or postponed guidance on 2020 to subsequent quarters, due to the high level of uncertainty about the extent and duration of the current crisis.
The Euro Stoxx index closed the half year down by 12.5%, the CAC 40 recorded highly negative performance (-17.2%) at the end of the period, the Dax 30 overperformed (-6.9%), and the IBEX 35 underperformed, ending the half year at -24.3%. Outside the Eurozone, the Swiss market index SMI only suffered limited losses (-5.5%), while the United Kingdom's FTSE 100 index closed the half year down 18.2%.
In the US equity market, the S&P 500 index ended the period at levels close to the beginning of the year (-4.0%), while the Nasdaq Composite technology stocks index overperformed, closing at +12.1%. The main Asian stock markets recovered almost all the losses recorded during the first quarter: the Nikkei 225 index closed the half year at -5.8%, while the Chinese SSE A-Share benchmark index closed the period at -2.1%.

The Italian stock market recorded very negative performance at the end of the period, but with a recovery from the lows of mid-March: the FTSE MIB index closed the half year down 17.6%, in line with the performance of the FTSE Italia All Share index (-17.4%). Mid-cap stocks overperformed: the FTSE Italia STAR index ended the period down 10.2%.

The European corporate bond markets closed the first six months of 2020 negatively, with risk premiums (measured as Asset Swap Spread - ASW) up from the levels at the beginning of the year, having been strongly affected by the impact of the COVID-19 health crisis, and despite a partial recovery in final months of the semester.
After a positive start to the year, the spread of the pandemic triggered a sharp adjustment. The period of downturn, during the month of March, continued until investor concerns were alleviated by the intervention of national and supra-national institutions, through the measures announced to support the economy. Specifically, the corporate bond markets greatly benefited from the intervention of the European Central Bank, which announced a new Pandemic Emergency Purchase Programme (PEPP) at the end of March (750 billion euro, in addition to the existing programme). However, the rally that began in April only enabled a partial recovery with respect to the beginning of the year: Investment Grade (IG) securities closed the first six months of 2020 with spreads up by around 90% and spreads on High Yield (HY) securities widened by around 70% (Refinitiv figures).
The primary market also suffered from the uncertainty caused by the pandemic, with a slowdown in issues. The trend gradually improved in the final months of the half year, also for the Italian market. Investors and issuers continued to demonstrate interest in Environmental, Social and Governance (ESG) topics. The health crisis and its economic impacts have given a major boost to social bonds, the proceeds of which are used to support significant social-impact initiatives. This type of instrument recorded a strong increase compared to the same period in 2019: social bonds/loans issued globally in the first six months of 2020 amounted to approximately 40 billion USD compared to 9 billion USD issued in the same period in 2019, according to Bloomberg data.

The emerging economies and markets

In the early months of 2020, before the economy was affected by the spread of the COVID-19 pandemic and the restrictive measures adopted by the authorities to combat it, GDP growth in the emerging countries had already slowed substantially compared to the final months of 2019.
For a sample covering 75% of the emerging countries, GDP fell by 1.7% in the first quarter from a year earlier, compared with an increase of 3.9% in the second half of 2019. Net of China, in deep recession between January and March 2020 (GDP -6.8%), the year-on-year change in GDP – for the same group of countries – had slowed to 1.6%, from 2.6% in the second half of 2019. Among the BRICS, Brazil (GDP -0.5% year-on-year) and South Africa (GDP -0.1% year-on-year) were in recession, whereas economic performance, despite a slowdown, remained positive in Russia (+1.6% year-on-year from +2.1%) and in India (GDP +3.0% year-on-year from +3.5%).
In countries with ISP subsidiaries in the CEE/SEE area, economic growth in the first quarter was still strong in Hungary (2.2%) and Poland (1.9%) among the CEE countries, and in Romania (2.4%) and Serbia (5.0%) among the SEE countries, whereas it was already negative or close to zero in the remaining countries. In the CIS area, GDP fell in Ukraine (-1.3%) and rose by a modest 0.9% in Moldova, while in the MENA area, Egypt, which was still only marginally affected by the spread of the virus during the quarter, continued on a path of strong growth (GDP +5.6%).
From the second quarter, the social distancing measures and the severe restrictions imposed on production activities by national authorities led to a sharp reduction in economic activity. In the countries with ISP subsidiaries, industrial production decreased significantly in April both in the CEE area (-29.5% year-on-year) and the SEE area (-28.7% year-on-year). In May and June, following the initial easing of the lockdown measures previously adopted, confidence indicators recovered, indicating the prospect of a modest recovery in economic activity from the third quarter. The Economic Sentiment Indicator (ESI) started to improve again in all countries, but was still below the levels recorded in the first quarter. Concurrently, where it was measured (Hungary, Poland and the Czech Republic), the manufacturing PMI partially reversed its course and started to climb again, although it remained below the threshold value of 50.
At the same time, in the CIS area, the industrial production index fell by 6.6% year-on-year in April and 9.6% in May in Russia, 15.9% in April and 12.2% in May in Ukraine and 25% in April in Moldova. The PMI index for Russia also climbed back up again in May and June, but remained below 50.
The year-on-year inflation rate across the above-mentioned sample covering 75% of the GDP of the emerging economies was equal to 3.5% in May 2020 from 4.9% in December 2019. Also in the countries with ISP subsidiaries, the weakness in demand resulting from the pandemic (whose downward impact on prices outweighed the upward impact of restrictions on supply), together with the fall in energy prices, resulted in a significant slowdown in inflation. Specifically, in the CEE/SEE countries, inflation slowed down respectively, to 2.6% and 1.5% in May, from 3.4% and 3.0% in December 2019. In the same period, in the CIS and MENA regions, inflation was essentially stable, at around 3%, in Russia, while it decreased significantly in Ukraine (1.7%), Moldova (4.1%) and Egypt (4.7%).
The weakening growth, the fall in inflation and the easing signals from the central banks of the advanced countries enabled the monetary authorities of the emerging countries to intervene in support of their economies with extensive and widespread cuts in key interest rates. The easing measures intensified in May and June, with the reduction of the initial strains on the international capital market and the adjustment of the CDS spreads on sovereign debt compared to the peaks in March.
In the countries with ISP subsidiaries, key interest rates were cut sharply from March in the Czech Republic (from 2.0% to 0.3%), Hungary (from 0.9% to 0.75%), Poland (from 1.5% to 0.1%), Albania (from 1.3% to 0.5%), Romania (from 2.5% to 1.75%) and Serbia (from 2.25% to 1.25%). In the group of CIS countries, the key interest rate fell from 6.25% at the end of 2019 to 4.5% in June 2020 in Russia, from 13.5% to 6% in Ukraine and from 5.5% to 3.25% in Moldova, and in the MENA region it decreased by 300 basis points in Egypt. In addition, significant liquidity support measures have been adopted in all the countries.
In the first half of 2020, the emerging MSCI stock index fell by 6.5%, in line with the advanced market indices, but closed with a substantial recovery from the lows reached in March, when it had lost almost a third of its value. In the BRICS countries, the Shanghai index (-2.1%) almost cancelled out its initial losses, but Bombay closed the half year with a loss of 13%; the stock

markets of Brazil, Russia and South Africa also fell by around 20%, but with a partial recovery from the March lows (over -40%). In the MENA area, Egypt lost more than 20%.
In the countries with ISP subsidiaries in the CEE/SEE area, price falls in the first half of the year were greater than in the Euro Stoxx index for the Czech Republic (-15.6%), Hungary (-22.8%), Croatia (-20.3%), Romania (-15.4%) and Serbia (-31.0%) despite the recovery (between 4.0% and 7.0%) from March.
The macroeconomic instability of the emerging countries, considered less well equipped to deal with the current crisis, also weighed on currencies. In the first half of 2019, the dollar appreciated by 8.7% against a basket of emerging currencies (OITP - Other Important Trading Partners index). The Latin American currencies, such as the Brazilian Real, where the spread of the virus has been particularly severe, and the countries that have current deficits to finance, such as the Turkish lira and the South African rand, have experienced strong depreciation.
In the countries with ISP subsidiaries, the Russian rouble and Ukrainian hryvnia were particularly weak (both lost more than 10% of their value against the dollar), while the currencies of the CEE and SEE countries lost from 1.0% to 7.0% against the Euro, except for Serbia, whose exchange rate remained essentially stable. After the end of the quarter, Croatia entered the ERM II (Exchange Rate Mechanism) on 10 July 2020 with a central exchange rate of 7.5345 kuna within a corridor of +/-15%. In the MENA area, the Egyptian pound depreciated only slightly against the dollar (-0.5%).
In March, fears about growth prospects and financial vulnerability following the outbreak of the pandemic led to a general rise in both sovereign bond yields and CDS spreads in the emerging countries. However, thanks to the easing measures taken by central banks, interest rates have been falling again since April, although they are still above the levels before the outbreak of the pandemic. A similar process has affected long-term returns (and CDS spreads) in the countries with ISP subsidiaries.

The Italian banking system

Interest rates and spreads

Average rates on new loans to businesses fell slightly in the first half of 2020. Unlike in the past, this trend was driven by the rates charged on new loans for smaller amounts (up to 1 million), particularly from March. Interest rates on mortgage loans to households also reached new lows, especially on fixed-rate mortgages, which even fell below floating rates from April. The average rate on outstanding loans, which reflected the changes in interest rates on new loans, fell by around 10 basis points compared to the end of 2019.
Deposit rates decreased slightly, with small haircuts for current accounts, due to the low levels reached. From April, rates on new time deposits for households also fell, after four months of significant increases for deposits of up to 1 year due to the attractive offers from some intermediaries. The overall cost of customer deposits continued its very gradual decline. However, the spread between lending and funding rates narrowed slightly.
As in the previous eight years, the mark-down on sight deposits remained negative in the first half of 2020, recording an average in line with the second half of 2019. The mark-up in the first quarter remained at the same level as in the final two months of 2019 but decreased significantly in May due to the fall in short-term lending rates.

Loans

The pandemic and the subsequent policy measures have had a significant impact on the bank credit market. Unlike other crises, there has not been a supply shock, thanks to the ECB’s measures to support liquidity and longer-term funding, as well as initiatives by supervisory and regulatory authorities to enable banks to support credit and deal with the risks associated with the crisis. Supply conditions are still favourable overall, despite increased prudence on the part of banks in view of the foreseeable deterioration in credit quality, partly mitigated by the support policies put in place. The demand shock has had contrasting effects, negative for loans to households, which have slowed down significantly, and positive for loans to businesses, whose trend has reversed, climbing back up again from March.
The current trend in loans to businesses is due to several factors: immediate liquidity needs during the lockdown; the collapse in fixed investment needs; and exceptional credit support measures through public guarantees. The result has been a return of considerable demand from businesses. After having overcome the initial difficulties in starting up the public guaranteed loans, the huge volume of applications boosted lending. The moratoria also contributed to the stock of loans. After an initial and temporary rebound in short-term loans, linked to immediate liquidity needs, the gradual implementation of public guarantee transactions generated a recovery in medium/long-term lending. In addition, while the growth in credit involved medium-large companies in March and April, loans to family businesses also increased in May.
In contrast, the strong growth in loans to households slowed down from March, particularly for consumer credit due to the steep decline in spending on durable goods. After the double-digit growth in the final part of 2019 and the first two months of 2020, disbursements of mortgage loans declined in March and April and then rose again in May and June, mainly due to renegotiations and presumably to the signing of new loans that had been stalled due to the lockdown.
With regard to credit quality, Italian banks consolidated the significant progress made in previous years. The stock of net bad loans stabilised at the level reached at the end of 2019. Net bad loans as a percentage of total loans decreased to 1.5%, down 3.4 percentage points compared to the peaks of 2015-16. In the first quarter of 2020 the default rate in terms of flow of non-performing loans in relation to total performing loans was stable, remaining lower than before the 2008-09 crisis, at 1.3% on an annualised basis.

Direct deposits

In contrast to loans, for customer deposits the effects of the pandemic strengthened the trends underway prior to the onset of the crisis. In particular, current accounts, which had already been very lively for over seven years, gained even more momentum, growing by more than 9% year-on-year in May. The strong performance of the on-demand component led to a significant increase in overall deposits and customer funding, despite the sharp decline in the bond component from March onwards. The latter reflected the adverse market conditions and lower needs for medium to long-term funding, which benefited from the substantial liquidity made available by the ECB.
The increase in deposits was driven by several factors: on the one hand, the climate of uncertainty and risk aversion, which resulted in a strong preference for liquidity, combined with a fall in consumption and an increase in propensity to save. On the other hand, balances on company accounts were fuelled by the increase in bank debts resulting from access to temporary liquidity and credit support measures. In fact, there was strong growth in deposits from non-financial companies, which in May saw a record inflow of 24.9 billion euro in just one month and a change of 18% year-on-year.

Indirect deposits and asset management

For assets under administration, the decline in debt securities held in custody by banks on behalf of households continued in the first half of 2020. The persistence of the trend reflected the ongoing fall in bank bonds held by retail customers.
In March, the asset management market saw an acceleration in net outflows from mutual funds following the collapse of the stock market indices triggered by the negative impact of the pandemic on the world economy. This phase was followed by a recovery in net inflows in the second quarter, in particular to the equity segment, thanks to demand aimed at seizing investment opportunities and a more active offering than in previous crises. However, there is still a significant preference for liquidity due to the high level of uncertainty generated by the pandemic. Inflows for portfolio management schemes were quite resilient.
In these circumstances, life insurance, after a positive first two months, recorded a fall in overall new business in the period March-June, partly due to the reduction in the activity of the distribution channels as a result of the measures to contain the COVID-19 epidemic. The weakness affected both traditional policies and high financial content policies.

Intesa Sanpaolo’s operating environment in the aftermath of the COVID-19 epidemic

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, at the level of the individual Group Legal Entity, both in Italy and abroad.
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 has regularly collected 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 smart 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.

For the Local 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. The approach has been adapted over time based on the various government measures and from June customers have been able to access cash transactions without appointment, with appointments only now required for other services.

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.

On 18 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.

At the beginning of June, a little more than two months after the signing of the Protocol Agreement with the Extraordinary Commissioner and the Department of Civil Protection, the 100 million euro donated by Intesa Sanpaolo was allocated in full to the Italian health care system to deal with the Coronavirus emergency, providing significant and structural support to strengthen the National Health System.

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. A total of 16 hospitals and 2 newly created Covid Emergency Centres in eight Italian regions benefited from the donation, which was one of the largest in Europe. In particular, a total of 36 new facilities were created consisting of new healthcare wards, wards repurposed for COVID-19 emergency management and specialist diagnostic laboratories, in addition to around 500 new beds, mainly for intensive and sub-intensive care. The work carried out so far has resulted in the provision of over 1,900 medical and diagnostic devices needed for patient management, including pulmonary ventilators, CPAP helmets, respirators, infusion pumps, cold nebulising systems, high flow monitors and humidifiers, CT scans, ultrasound scanners, and reagents needed to produce diagnostic kits. Intesa Sanpaolo has also contributed to ensuring the safety of doctors and healthcare workers by donating over 21 million items of personal protective equipment, such as masks, gloves, overalls and gowns.

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.

The following healthcare facilities have benefited from the measures adopted by Intesa Sanpaolo:

- Lombardy: Ospedale San Raffaele, Humanitas premises in Rozzano (Mi), Bergamo and Castellanza, Grande Ospedale Metropolitano Niguarda, Ospedale Papa Giovanni XXIII of Bergamo, ASST degli Spedali Civili in Brescia, Ospedale San Gerardo in Monza, and Policlinico San Matteo in Pavia;
- Veneto: ULSS 9 Scaligera (Verona) and Veneto Region (Azienda Ospedaliera of Padua, Azienda Ospedaliera of Verona, ULSS 1 - Dolomites (Bl), ULSS 2 - Marca Trevigiana (Treviso), ULSS 3 - Serenissima (Venice), ULSS 4 - Veneto Orientale (Venice), ULSS 5 - Polesana (Rovigo), ULSS 6 - Euganea (Padua), ULSS 7 - Pedemontana (Vicenza), ULSS 8 - Berica (Vicenza), and ULSS 9 - Scaligera (Verona);
- Piedmont: Istituto di Candiolo IRCCS (Turin), ASL3 and ASL4 in Turin;
- Emilia-Romagna: Policlinico S. Orsola-Malpighi in Bologna;
- Lazio: Bio-Medical Campus, University of Rome;
- Abruzzo: Presidio Ospedaliero - ASL Teramo;
- Campania: Azienda Ospedaliera Dei Colli (Naples) - Ospedale Cotugno and Ospedale Monaldi;
- Sicily: Ospedale San Giovanni di Dio in Agrigento and Ospedale Giovanni Paolo II in Sciacca.

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 the Managing Director and CEO also gave up part of their remuneration to contribute to similar donations, totalling around 5 million euro of the bonuses they would have been entitled to under the 2019 incentive system. 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.
A fundraising campaign was also launched for citizens and businesses on Intesa Sanpaolo’s digital platform www.forfunding.it, which raised 3.5 million euro through all the initiatives conducted in partnership with other Associations, including 2.3 million euro from Intesa Sanpaolo’s crowdfunding campaign aimed directly at the Department of Civil Protection and linked to the donation. A donation of over 1 million euro was made out of this amount – through the partnership established with the Gucci group, and again in agreement with the Department of Civil Protection – to the research project being conducted by 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.

The Group has also implemented a series of actions and initiatives to support the economic and social recovery of the communities where it operates. These include the project launched with the Town of Bergamo, known as the “Renaissance Programme”, which provides 30 million euro, through grants and impact loans, to support micro and small enterprises and small commercial and craft businesses in Bergamo that are experiencing difficulties during this recovery phase and do not benefit from measures or subsidies provided by central or regional institutions. The Programme provides concrete support to Bergamo’s local economy, to help companies meet the costs incurred during the lockdown and make the investments needed for the recovery, and is also aimed at encouraging sustainable mobility measures for travel between home and work.
The solidarity initiatives aimed at supporting the difficult and delicate recovery following the health emergency also included the aid offered by Intesa Sanpaolo through two major interventions:

- the “Ricominciamo insieme – sostegno alle generazioni nella famiglia” project, with a grant of 5 million euro to the Diocese of Bergamo, adding to the funds already made available by the Diocese to Caritas Diocesana, the Italian Episcopal Conference and other bodies and private individuals for assistance to households and the relaunch of Bergamo’s economy;
- a donation of 5 million euro to the Solidarity Fund “Do.Mani alla speranza” and the Fund “In aiuto alla Chiesa Bresciana” for the programme of measures to support households and parishes in difficulty.

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 also 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. In addition, the possibility of suspending outstanding loan instalments has been increased up to two years;
– an initiative with the craft industry association Confartigianato Imprese, aimed at enhancing the potential of craft enterprises through actions adopted at national level to promote their growth, including a process to facilitate innovation, sustainability and enhancement of human capital.

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.

In these exceptional times, Intesa Sanpaolo has also strengthened its "Sviluppo Filiere" Programme by targeting 2,500 Italian supply chains, from all the production sectors spread throughout Italy, which will be allocated a new credit line of 10 billion euro.

In a market made up of many small firms and a difficult environment like the current one, the strategic relationship between the leaders of the supply chain and their suppliers can become an extraordinary multiplier and facilitator for access to credit for smaller firms, by leveraging the strength and solidity of the best of Italian manufacturing.

The main initiatives supported recently include:

– Automotive sector: a transaction with FCA (80% SACE guarantee), representing the largest ever measure in support of the Italian industrial sector and one of the largest measures in support of an industry sector ever implemented in the world;
– Gucci supply chain: for local growth projects, international expansion programmes and the renovation of production facilities. Firms that belong to the supply chain will be able to rapidly access a wide range of loans, at the best conditions and with faster credit disbursement;
– Venchi supply chain (a company with an extensive national and international presence, but with firm roots in the Cuneo area): around 6,000 retailers located throughout Italy will benefit from this initiative.

Lastly, following the approval by the Bank's Shareholders' Meeting on 27 April 2020, one million euro, equal to 16% of the total of 14 million euro available 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 are applying for projects according to the standard procedures for accessing the Allowance'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 Allowance – 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 Allowance 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 included 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 communication of 27 March 2020 concerning the dividend policy in the aftermath of the COVID-19 epidemic[1], decided to suspend the proposal regarding the cash distribution to shareholders of around 3.4 billion euro, corresponding to 19.2 euro cents per share, already on the agenda of the Ordinary Shareholders' Meeting called for 27 April 2020. The Board also resolved to submit a proposal to that Ordinary Shareholders' Meeting for the allocation to reserves of the profit for the 2019 financial year, 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 on 27 April 2020, translated into a further strengthening of the already solid capital position of the Intesa Sanpaolo Group: as at 30 June 2020, the Common Equity Tier 1 ratio – calculated taking into account the transitional treatment adopted to mitigate the impact of IFRS 9 – amounted to 14.6%.

[1] Subsequently amended by the "Recommendation of The European Central Bank of 27 July 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35)", which extended the period for the dividend policy from 1 October 2020 to 1 January 2021.

The Intesa Sanpaolo Group, also thanks to its solid capital position, has prioritised, and will continue to prioritise the generation of benefits for 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.

Impacts of the epidemic on the operating results, business activities and risk profile

As already stated above, from the last week of February, the health emergency generated by the pandemic still underway 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. 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 effects on the operating results, business operations, and the management of financial investments, as well as the risk profile, are detailed below.

The actions taken to protect health, together with the business continuity measures, described in detail in the specific paragraphs above, had an impact on operating costs and the capital budget, mainly in connection with:

- prevention of workplace hazards, which involved purchases of personal protective equipment aimed at meeting the healthcare needs and the implementation of measures designed to contain the spread of the virus, together with the modification of operating processes and the adoption of the specific associated measures needed, as well as the granting of additional holiday leave to the Group's personnel assigned to the branch network during the most acute phases of the emergency;
- wide-scale adoption of smart working, which specifically required the purchase and distribution of devices to enable the implementation of remote working for groups of employees not already enabled, both in the sales network and at the headquarters, and changes to operational and commercial processes to enable remote working by employees and further upgrades to the corporate information technology network to permit simultaneous access by a growing number of users: compared to the "pre-covid" situation, the number of users enabled to work remotely increased from about 19,000 to almost 60,000, representing around 70% of the Group's personnel;
- implementation of measures to facilitate digital interaction with customers, by improving the remote offering and expanding the contract dematerialisation and remote signature processes, with consequent investments to enhance the channels for remote contact with customers (call centres and digital apps) and strengthen IT security in terms of fraud prevention.

Other impacts on costs included the support to local communities, in relation to which emergency interventions were funded for medical equipment and materials – provided to selected health facilities in the areas most affected by the epidemic – and the sponsorship of various initiatives aimed at managing the social effects of the crisis.

In terms of the impacts on the business, the following have been observed:

- the extraordinary measures to support the Italian economy and its businesses and households implemented by Intesa Sanpaolo. In fact, it was the first bank in Italy to suspend mortgage and loan instalments, before the specific regulations came into force, and the first bank in Italy to sign the collaboration protocol with SACE, thus providing immediate support to enterprises under the "Liquidity" Law Decree no. 23 of 8 April 2020.
  At the end of June, over 378 thousand suspension applications had been processed, for a volume of over 42 billion euro and suspended amounts of around 960 million euro, mainly related to the "Cura Italia" measures provided for in Article 56 of Law Decree 18/2020. Applications from business customers accounted for around 50% in terms of number and 75% in terms of volume. Over 50% of the suspension applications and 60% of the volumes were concentrated in Northern Italy, of which around 20% from the Lombardy Region alone.
  With regard to the measures to support the production system, the Intesa Sanpaolo Group has provided an overall credit line of 50 billion euro dedicated to loans for businesses. Through this instrument, around 16.5 billion euro of loans had been granted by June, including almost 14 billion euro under the "Liquidity" Decree. Almost 142 thousand loan applications have been processed (most of which related to the "up to 25,000 euro" loan, later raised to 30,000 euro) that were eligible for the acquisition of the guarantee from the Central Guarantee Fund for SMEs, for an amount of 7.3 billion euro. Around 40 transactions using the SACE Guarantee were also completed, for a total amount granted of almost 6.6 billion euro. Of the total of 14 billion euro referred to above, 6.6 billion euro represented positions for which the process was completed for both the acquisition of the guarantees and the disbursement, which may also not be concluded at the same time.
  Lastly, 15 thousand bank transfers were made for advances on furlough payments, for a total of 16 million euro, which enabled current account holders to receive an advance on ordinary income support and redundancy fund benefits, as provided for by the "Cura-Italia" Decree, while awaiting payment from the Italian National Social Security Institute.
  The Intesa Sanpaolo Group also supported the legislative and non-legislative measures adopted in the various countries where it operates in order to combat the crisis generated by the pandemic.
  As at 30 June, the total volume of the Group's exposures affected by moratorium measures amounted to 50.5 billion euro, while the new liquidity provided under public guarantee schemes – for which the process has been completed for both the acquisition of the guarantees and the disbursement, which may also not be concluded at the same time – amounted to approximately 6.7 billion euro.
- the dynamics of the asset management business have been affected both by the depreciation in the value of 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. 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.
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, which came under pressure, especially during March 2020, and then gradually climbed back, in the following months, towards the levels of the beginning of the year.
At the end of the first quarter of 2020, the assets under management of the Asset Management Division had declined by 6.7% compared to the end of December 2019, but this decline had fallen to 3% at the end of June 2020.

- the management of proprietary financial investments, affected in the initial phases of the pandemic by the strains 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 (so-called market dislocation). To preserve the functionality of its liquidity and investment portfolios, especially in terms of maintaining an appropriate risk, diversification and earnings profile, the Intesa Sanpaolo Group implemented a de-risking process through the revision of the portfolio allocation, with a reduction in the concentration of less diversifying positions and the purchase of more diversifying assets. The de-risking, which was particularly important in the early months of the pandemic, continued to a lesser extent in the second quarter when financial markets, thanks in part to the actions taken by the ECB, showed signs of stabilisation, which enabled more orderly management of risk positions.

The most significant impacts of the COVID-19 pandemic on the ISP Group's operating income as at 30 June 2020 were on the net fee and commission income, which amounted to 3,588 million euro in the first half of 2020, down on the first six months of 2019 (-6.3%, or -242 million euro), mainly due to the sharp decline in March and April in particular: the comparison for the first three months of the year showed fee and commission levels still substantially in line, despite the significant impact of the lockdown already starting from March. The fee and commission income in the first half of 2020 also fell compared to the second half of 2019 (-13.2%), partly as a result of the decrease in performance fees for the assets under management (from 139 million euro to around 11 million euro).
In terms of operating costs, the costs incurred by the Group in the first half of the year for measures related to the pandemic amounted to around 33 million euro in current expenses (in addition to 25 million euro in investments). This was accompanied by measures adopted to further strengthen the control of operating costs, which resulted in a 6.3% decrease in the Group's administrative expenses, amounting to savings of 76 million euro compared to the same period in 2019 (-2.8%, or -128 million euro, for total operating expenses), with the cost/income ratio falling to 48.5% from 49.9% in the first half of 2019.
However, the most significant effect related to the considerable increase in the annualised cost of risk, which rose to 89 basis points in June from 40 basis points in the first quarter of 2020. This was due – as detailed in the dedicated sections of this document – to the adoption within the projection models of the new ECB - Bank of Italy scenarios and the managerial overlays, which led to an increase in ECL and macro-scenario add-ons, despite default rates still remaining low.
Net adjustments to loans in the first half totalled 1,801 million euro compared to 923 million euro in the first half of 2019. Of these, around 880 million euro related to the "COVID-19" effects, 730 million euro for generic coverage of performing loans and the remainder for specific coverage of non-performing loans. These impacts resulted from both the effect on the ECL and the significant migration of positions to Stage 2 as a result of a Significant Credit Risk Increase. Non-performing loans were also affected by the slowdown in recovery activities (due for example to court closures) and the resulting increase in the vintage of the non-performing portfolio.

With regard to the Divisions, the situation generated by the health emergency did not have a significant impact on the income of the various business units, which, compared to the first half of 2019, reported declines of less than 5% in the Banca dei Territori and International Subsidiary Banks divisions, as well as the Private Banking and Asset Management segments, and growth in the Corporate and Investment Banking Division and the Insurance Division.
Careful cost management kept operating results high in all the divisions, with significant growth for Corporate and Investment Banking and Insurance.
The above-mentioned effects of the increase in adjustments to loans affected the Banca dei Territori and the International Subsidiary Banks Division in particular. As a consequence, although they still reported net positive results, these were down significantly on the first half of 2019. All of the Group's other divisions reported a slight fall in net profits or significant growth in the case of the Corporate and Investment Banking Division.

With regard to risk dynamics, in referring for credit risk to what is described in detail in the paragraph "The Intesa Sanpaolo Group's approach to the preparation of the half-yearly report as at 30 June 2020" below, the main impacts on the Group of the context following the COVID-19 epidemic on other types of risk are indicated below:

- for market risk, there was an increase in managerial VaR (mainly attributable to the stock of government securities in Banca IMI's HTCS portfolio). 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 270 million euro, increased – in average terms – compared to 170.4 million euro in the same period of 2019. The Group's average VaR for the period on the trading component only was 63.5 million euro (with a peak of 97.4 million euro), higher than in the same period of 2019, when it was 47 million euro.
  The "scenario effects" generated by the exceptional increase in volatility, given the calculation method, led to overruns of the Group's soft limits on the Trading Book VaR and HTCS VaR.

In the second quarter of 2020, these limits were revised as part of the Post-COVID-19 Risk Appetite Framework procedure with the aim of calibrating the measures to the changed scenario and ensuring normal operations. The management elements implemented beginning in March are detailed below:

- *trading portfolio*: transactions relating to assets that are “uncompressable” since they derive from risk management, primarily relating to the debt valuation adjustment (DVA) and market-making activity (focus on Banca IMI and the CIB Division).
- *hold-to-collect-and-sell portfolio*: portfolio de-risking and diversification actions were mainly undertaken with regard to Banca IMI’s HTCS portfolio. With regard to liquidity portfolios (Parent Company Treasury), only reinvestment of securities held for liquidity purposes and participation in the syndication of local government securities were permitted.

As of Market Risk own funds, despite the increase in volatility, the trading book only recorded a slight increase in its prudential requirement. Although an inevitable increase in the cyclical measure (VaR), the hedging strategies have limited the exposure to the risk factors most affected by the pandemic (sovereign and financial spreads). In detail, the Intesa Sanpaolo Group's market risk weighted assets at 30 June 2020, calculated according to the internal model, amounted to 17.2 billion euro, of which 10.8 billion euro for Banca IMI and 6.4 billion euro for the Parent Company, in line with the figure observed in the first quarter of 2020 and the figure at the end of 2019;

- at the level of liquidity risk, since the outbreak of the emergency the Group has preventively adopted all necessary management and monitoring measures to mitigate the potential exacerbation of systemic liquidity conditions. The liquidity position has always remained solid due to ample access to liquidity reserves and the high stability of customer deposits. In detail, in the first half of the year both the regulatory indicators (Liquidity Coverage Ratio – LCR – and Net Stable Funding Ratio – NSFR) were well above the minimum requirements;
- at the level of the interest rate risk generated by the banking book, the value shift sensitivity for a rate shock of +100 bps amounted to -1,400 million euro at the end of June 2020, compared to +394 million euro at the end of December 2019. The change in the exposure was due to banking book management measures such as cash flow hedging to mitigate the potential negative impacts of COVID-19;
- at the level of counterparty risk, the pandemic crisis entailed a general increase in exposures, mainly due to the decline in Euro Area interest rates and the general, significant increase in the volatility of the main risk factors. However, no critical issues were encountered in the margining process with market counterparties, despite the sharp increase in collateral calls, by both number and volume, during the weeks of greatest stress on the markets. Margin processes with central counterparties also did not generate any operating issues. With regard to the customers of the Banca dei Territori Division, the Bank implemented the "Cura Italia" Decree (an ad hoc Italian governmental measure) for derivatives as well: in particular, customers in the SME segments in good standing that submitted moratorium applications for their loans may also apply for a moratorium on any hedging derivatives until the end of September. In terms of capital requirements, growth from December to March amounted to 15% for the Parent Company and to 3% for Banca IMI, whereas at the end of June total growth compared to the end of 2019 amounted to 20% for the Parent Company and to 16% for Banca IMI;
- with regard to operational risks, from the outset of the emergency the Group decided – as previously described – to adopt preventive initiatives to ensure business continuity, while also maintaining the maximum level of safety for its customers and employees. This was also done in the light of the rapid development seen in the realm of cyber-threats, which seek to exploit the fears and sense of urgency of individuals and the opportunities offered by the remote-banking solutions adopted by financial institutions for fraudulent purposes. In particular, the business continuity plan was activated and additional actions were immediately identified to respond effectively to the extensive spread of the pandemic (e.g., extension of remote working and enhancement of IT infrastructure for remote connectivity), the digital transformation process was expedited, moving forward significant investments intended to develop methods of interaction with customers (e.g., expansion of the services offered via Internet and mobile banking), security infrastructure for access to the company network and data and information protection measures were progressively enhanced to increase the ability to respond to the sharp rise in cyber-threats and attacks (e.g., distributed denial of service and malware), and numerous training and communications initiatives were launched to raise awareness amongst customers and employees of growing social-engineering and phishing campaigns. The long-term sustainability of the business continuity solutions of several critical suppliers was also verified.

  With regard to measures to protect the health of employees and customers, protective devices such as masks and gloves were purchased and distributed, sanitising gel was supplied and company premises were periodically sanitised. Among the various mitigation measures described above, only this latter component was considered for the purposes of calculating the operational risk capital requirement.

Overall, during the half-year the Group preserved its sound capital base: while risk-weighted assets decreased by 2.6 billion euro, Common Equity Tier 1 capital increased by 1.7 billion euro, bringing the Core Tier 1 Ratio to 14.6% from 13.9% at the end of 2019.

In general, in terms of impacts on the Group's risks, it should be noted that, in view of the tension seen in the first few months of the year and the expected economic recovery as early as the second half of 2020, some indicators reflected - and/or continue to reflect - the negative effects of the COVID-19 scenario, whereas for others, such as certain metrics related to credit risk, the negative impacts had not yet become fully manifest at 30 June 2020. The extent of the effects and any improvements or deterioration in the coming months, will be closely related to the actual development of the macroeconomic environment, and in particular to the development of the COVID-19 scenario and any new situations of tensions not factored into the forecasts that should occur.

The Intesa Sanpaolo Group is carefully monitoring the development of the external environment, also through specific scenario and stress analyses, to assess the related impacts in terms of profitability and capital adequacy. These analyses show that, even considering more severe scenarios than those used in the context of evaluations for accounting purposes and taken as the central forecast in monitoring and operational planning activity, the Group would nonetheless be able to ensure - also through specific actions - compliance with regulatory requirements and its own stricter internally set limits.

Outlook

Global economic activity is expected to rebound in the second half of 2020, as a result of the easing of measures adopted to control the pandemic in recent months and fiscal stimulus programs. However, the inability to return to normality in sectors such as travel, tourism and entertainment, the loss of jobs and income during the recession, and the possibility of new outbreaks of the epidemic could slow the recovery. Income and employment levels will remain below pre-crisis levels.
The level of short-term interest rates will stay stable at current values. Central bank purchasing programmes will compensate for the increased reliance by governments on the market and, together with the assurances that no increases in official rates are planned for a long time, will also ensure low interest rates in the medium- and long-term. Despite the worsening situation of Italy's public debt, the increase in premiums will be held back by the European safeguard measures adopted, including the Eurosystem's purchase programmes.
In the mid-year update of its forecast report the IMF indicated a 3% contraction in GDP for the group of emerging economies in 2020. After a sharp fall in the first half of the year, production is expected to recover from the second half onwards. The disparity between countries is still high, due to different expectations regarding the evolution of the contagion, the effectiveness of the containment measures implemented and the different financial exposure to foreign countries.
In Asia, the spread of the virus has been successfully contained by China and several countries in the Southeast region, creating the conditions for a faster recovery than in other regions. On the other hand, the epidemiological situation is still a cause for concern in India, as well as several Latin American countries (including Brazil), giving rise to fears about the performance of these economies in the second half of the year. In the other major areas of the world, the economic repercussions of the pandemic have been compounded by the decline in demand and in commodity prices, particularly for hydrocarbons, generating concerns about a large fall in GDP in the producer countries of Sub-Saharan Africa, the CIS region and the MENA area.
Also in the countries with ISP subsidiaries, after a significant fall in GDP in the first half of the year, recovery is expected to begin in the second half of the year, but with variations due to the differences in the foreign exposure of the industrial sectors (primarily machinery and automotive) and the differences in the economic weight of the tourism-related sectors most affected by the social distancing measures. For the full year and with regard to all the countries with ISP subsidiaries, a sharp fall is forecast for GDP (no less than 5% overall), with downward risks due to the uncertainties still surrounding the evolution of the pandemic.
With regard to the Italian banking system, in the second half of 2020 the flow of credit to the economy will continue to benefit from the liquidity support measures adopted by the Government and other national and international authorities. In particular, banks will continue to provide companies with government guaranteed loans, which can be accessed until 31 December. The forecasts for mortgages for the rest of the year reflect the scenario for the residential real estate sector, which envisages a decline in sales and house prices. More generally, the weakening of household lending in 2020 is affected by the reduction in disposable income, uncertainty and the resulting increase in precautionary savings, which are holding back spending decisions. On the other hand, interest rates are still very low and the supply from banks has not been restricted for lending to households. Looking ahead, the impact of the crisis on credit quality is likely to be mitigated by the effects of the liquidity and credit support measures implemented, including moratoria, publicly-guaranteed loans and subsidies to households.
Customer deposits will see continued significant growth, particularly for on-demand deposits. The preference for liquidity, risk aversion and low market yields will continue to fuel the balances on current accounts. The use of the extensive refinancing offered by the ECB will reduce the medium- to long-term funding needs, to the extent that the stock of bonds is expected to decline throughout 2020. The large inflow to current accounts and the substantial contribution from the TLTRO III operations, both in terms of negative rates and large volumes, will reduce the cost of funding. Further haircuts may be seen on current account rates, but without falling into negative territory. As a result, interest rates on loans will still be very low, despite the foreseeable deterioration in perceived risk. Credit conditions will also remain favourable thanks to the policy measures implemented to support credit. In addition, competition on loans to the best customers will continue.

For the Intesa Sanpaolo Group, without taking the acquisition of UBI Banca into account, net income of no lower than around 3 billion euro and no lower than around 3.5 billion is expected for 2020 and 2021 respectively, assuming a potential cost of risk of up to around 90 basis points in 2020 and around 70 basis points in 2021.
Even taking the UBI Banca acquisition into account, the Group's dividend policy is confirmed. It envisages the distribution of cash dividends corresponding to a payout ratio of 75% and 70% for 2020[2] and 2021 respectively. This is subject to ECB indications which will be announced in respect of dividend distribution after 1 January 2021, the deadline for the recommendation of 28 July 2020.
In addition to the envisaged distribution of cash dividends from the 2020 net income, Intesa Sanpaolo intends to obtain approval from the ECB to distribute cash from reserves in 2021 in light of the allocation of the 2019 net income to reserves in 2020.
The pro-forma fully loaded Common Equity Tier 1 ratio expected to be above 13%[3] in 2021 is confirmed, even taking the UBI Banca acquisition and the aforementioned potential cash distribution from reserves into account.

For the Group resulting from the acquisition of UBI Banca, it is envisaged, as of 2022, a net income of no lower than 5 billion euro and a strategy that remains focused on rewarding shareholders and maintaining solid capital ratios. There is the intention to disclose the new Business Plan by the end of 2021, as soon as the macroeconomic scenario becomes clearer.

[2] Excluding the contribution of the negative goodwill not allocated to cover integration charges and reduce risk profile from net income. The actual determination of the negative goodwill will result following the outcome of the PPA procedure provided for under IFRS 3.

[3] 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.

The main accounting issues within the context of the epidemic

The context

At the beginning of 2020, the world economy was growing, albeit with a moderate slowdown, and financial intermediaries had been progressively strengthening their solidity. This cautious optimism was completely shattered by the arrival of COVID-19. For Europe, the first half of 2020 was dominated first by the rapid spread of the COVID-19 pandemic, followed by the most severe phase of the outbreak, and then only in the last two months, by the progressive but constant containment of the virus, accompanied by a gradual recovery in economic and social activities. Bearing in mind that 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, the measures to support the recovery are enormous. The picture being painted by the forecasts of possible future macroeconomic scenarios is that the significant public measures adopted in the European Union and in most of the main countries, together with the success of the virus containment measures adopted in Europe, will enable a gradual return to the full movement of people and a significant recovery in activities in the Group's main areas of operations within the not too distant future. As a result, there will be a considerable adverse effect on business in the short term (2020), but already from the beginning of next year – if not from the end of 2020 – we should see a rapid reversal of the trend with a significant recovery in GDP in 2021.

At the present time, it therefore seems reasonable to agree with the expectations of the various authorities, which have recently published their forecasts (in particular the ECB and the Bank of Italy), that the current highly adverse period for the real economy may be followed by a significant recovery in production on the back of the public support measures adopted for the economy.

In this scenario, the various European Regulators (in line with the US, UK and Canadian authorities) have issued a series of measures (summarised below with regard to the accounting aspects) 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 banks. Banks have also been encouraged to apply their judgement in IFRS 9 forward-looking credit assessments to better capture the specifics of this very exceptional situation. 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.

Communications from authorities, standard setters, and governments

The documents issued by the various regulators and standard setters, in terms of the accounting aspects, focused on the following specific issues:

- guidance on the classification of loans and in particular guidelines for the treatment of moratoria;
- determination of the Expected Credit Loss (ECL) according to IFRS 9 from a forward-looking perspective;
- transparency and market disclosure.

A summary of the main documents is provided below.

On 27 March, the **IFRS Foundation** 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*"[4]. 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, it is confirmed 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".

The ECB also sent a letter[5] 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:

[4] 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.

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

- *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, 2021 and 2022 macroeconomic forecasts*
  The ECB has provided recommendations on how the forecasts for the March and June period-end estimates should be made, indicating that the macroeconomic projections produced by its staff on 12 March 2020 (for the quarterly reports as at 31 March) and the subsequent update of 4 June[6] for the half-year report: "*The next ECB publication regarding the euro area outlook, which is based on country-specific projections by the national central banks, is planned for 4 June 2020. The ECB expects the significant institutions to take into account these future publications accordingly for their quarterly accounts prepared as of 30 June 2020*" should be used as anchor points. In this latest update, the ECB forecasts a fall in the Eurozone's GDP of 8.7% in 2020 and a rebound of 5.2% in 2021, followed by a further recovery of 3.3% in 2022. The ECB also provides:
  - a severe scenario that envisages a 12.6% fall in the Eurozone's GDP in 2020, followed by a rebound of 3.3% and 3.8% in 2021 and 2022 respectively;
  - a mild scenario with a 5.9% fall in the Eurozone's GDP in 2020 and a recovery of 6.8% in 2021 and 2.2% in 2022.

  The specific scenario for Italy, included in the baseline of the ECB projections, was released by the Bank of Italy in the document "*Proiezioni macroeconomiche per l'economia italiana*" (Macroeconomic projections for the Italian economy) published on 5 June this year, in which Italy's GDP is expected to fall by 9.2% in 2020, followed by a rebound of 4.8% in 2021 and 2.5% in 2022. This document also includes an assumption of a more severe scenario with a sharper fall in Italy's GDP of 13.1% in 2020, followed by a more moderate rebound of 3.5% in 2021 and 2.7% in 2022.

In the interests of completeness, it is worth mentioning that this aspect was also addressed in the recent letter (8 June 2020) from the Chair of the ECB's Supervisory Board, Andrea Enria, in response to a question from several members of the European Parliament. The letter stressed that "*in order to improve comparability among European banks and prevent procyclical provisioning, ECB Banking Supervision recommended banks to consider the regularly published ECB macroeconomic projections as anchor points for calibrating their models. ECB Banking Supervision expects that recent macroeconomic projections, published on 4 June 2020, will provide a more solid anchor and will foster greater consistency in provisioning behaviour across banks. ECB Banking Supervision expects banks to adhere to these recommendations, and will use the June macroeconomic projections as a reference to identify significant outliers and further challenge insufficiently prudent provisioning behaviours.*"

In a press release published on 25 March[7], 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 EBA guidance on the accounting treatment of moratoria was then supplemented at national level by the Bank of Italy[8], with clarifications regarding the reporting instructions for banks participating in the sample surveys on monthly and 10-day harmonised interest rates (MIR). The instructions refer to the moratoria granted as a result of the "Cura Italia" Decree and also apply to private moratoria granted by individual intermediaries.

[6] See ECB "Eurosystem staff macroeconomic projections for the euro area, June 2020" of 4 June.

[7] 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 adopted by the Bank of Italy in its communication of 30 June 2020.

[8] See Bank of Italy Communication "*Segnalazioni statistiche sui tassi di interesse armonizzati e decadali. Precisazioni segnaletiche conseguenti all'applicazione delle moratorie legali o private*" (Statistical reporting on harmonised and 10-day interest rates. Reporting clarifications following the application of legally mandated or private moratoria) of 9 June.

The **ESMA** has also commented[9] 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 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[10] 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.

In addition, in May ESMA published the Public Statement "*Implications of the COVID-19 outbreak on the half-yearly financial reports*" which addresses the implications of the COVID-19 pandemic on the half-yearly financial reports of listed issuers, in order to promote transparency and uniform application of regulatory requirements at European level. Specifically, ESMA expects that, for a large proportion of issuers, COVID-19 will be a material event within the meaning of IAS 34 (paragraph 15-15C) with the consequent need to adjust and augment the level of information provided in this regard in the half-yearly report. It also stresses the need to assess whether the pandemic represents an indicator of impairment and, consequently, to perform the impairment test to estimate the recoverable amount of the non-financial assets. In making this assessment, issuers should carefully consider the effects of the COVID-19 outbreak which, in ESMA's view, constitute a strong basis for concluding that one or more of the impairment indicators in IAS 36 have been triggered.

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[11], 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. Lastly, IOSCO, in its recent publication (on 29 May) of the document "*Statement on Importance of Disclosure about COVID-19 - The International Organization of Securities Commissions encourages issuers' fair disclosure about COVID-19 related impacts*", further reaffirmed the above-mentioned guidelines on financial reporting.
On 16 July, Consob issued a new notice regarding the financial reporting of listed companies in which it draws the attention of those involved in the financial reporting process to the recommendations provided by ESMA in the public statement "Implications of the COVID-19 outbreak on the half-yearly financial Reports" described in the paragraph above. In line with that document, the assessments directors are required to make in accordance with IAS 36 "Impairment of Assets" when preparing half-yearly reports are also considered important by Consob. In particular, they must assess whether the effects of the COVID-19 epidemic are indicators of impairment that necessitate specific tests on the recoverable amounts of assets. Particular attention needs to be paid to the description of the significant uncertainties and risks associated with COVID-19, especially where they cast doubt on the ability of the issuers to operate as a going concern. Consob also adds the specification, regarding the description of the impacts of the COVID-19 epidemic on the income statement, that issuers should provide information, also on a quantitative basis, in a single note to their interim financial statements, to enable readers of the financial statements to understand the overall impact of the pandemic on the earnings for the period.

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

[10] See ESMA "ESMA recommends action by financial market participants for COVID-19 impact" of 11 March.

[11] See IOSCO "Application of Accounting Standards during the COVID-19 Outbreak" of 3 April.

Intesa Sanpaolo in the first six months of 2020

The Intesa Sanpaolo Group's approach to the preparation of the half-yearly report as at 30 June 2020

Introduction
The concepts set forth by the various authorities, which have been summarised above, 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 Half-yearly Report as at 30 June 2020.
However, it should be reiterated that, generally speaking and in line with the approach adopted for the preparation of the interim statement as at 31 March 2020, 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 clearly defined, especially in terms of their timing of implementation, make it very difficult to apply accounting standards anchored to market values and forward-looking valuations.

Details are therefore 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), unless there is an increase in the probability of default as a result of the macroeconomic scenario considered. 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 line with the assumptions made in the Interim Statement as at 31 March 2020, the elements emerged in the second quarter that made it possible to move towards a more structured valuation process, but with the obvious specifics dictated by the current exceptional situation. In particular, as a result of the longer period of observation of the effects of the lockdown and the subsequent progressive easing in the geographical areas relevant to the Group, as well as the availability of the first final data on the economic repercussions of the crisis and the information providing greater support for the forecasts, it was possible to produce more reliable forecasting scenarios than in the initial phase of the pandemic, albeit still subject to unforeseeable developments due to the significant uncertainty generated by the extraordinary nature of the COVID-19 event. As already mentioned above, on 4 June the European Central Bank also issued macroeconomic projections for the Eurozone for a baseline scenario and a more severe alternative scenario, to which the Supervisory Authorities of the Eurozone countries contributed with country-specific forecasts.

Bearing in mind the above, and in view of the continued objective uncertainty, as well as the instructions from the Regulators and the above-mentioned guidance from the Chair of the ECB Supervisory Board, Andrea Enria, for the macroeconomic scenario the Group followed the guidance provided by the ECB and the Bank of Italy (described above) for the forward-looking assessments as at 30 June to determine both its baseline scenario and the alternative scenarios (worst- and best-case scenarios) required by the IFRS 9 methodology adopted by the Group.
The most-likely scenario and alternative scenarios were then constructed, in line with the ECB guidance, using the macroeconomic projections provided by it. The main macroeconomic variables incorporated in the scenarios underlying the Group's estimates (i.e. GDP, unemployment rate, inflation rate) fully reflect the three-year trend represented by the projections provided by the ECB for the Eurozone and by the Bank of Italy for the Italy Area. In particular, the figures for Italian GDP are in line with those estimated by the Bank of Italy, except for the best-case scenario (not made public by the Bank of Italy), for which internal estimates were made in line with the ECB study. Internal estimates were also made for the US area, again in the light of the overall consistency with the trends indicated by the Regulators.

In line with the various assumptions on the evolution of the health situation and the launch of the major measures to support the economy, the Group's forecasts – as mentioned above based on the ECB/Bank of Italy scenario of 4 June – are as follows:
1. the most likely (or baseline) scenario envisages a significant recovery in 2021 and 2022, although not sufficient to fully offset the significant fall in 2020;

2. the worst-case scenario, on the other hand, envisages a more drastic fall in GDP in 2020 accompanied by a weak recovery in the following two years.
3. lastly, the best-case scenario assumes a smaller decline in 2020, fully offset in the following two years.

With regard to the health situation, the best-case scenario assumes effective containment of the virus, while the worst-case scenario assumes a strong resurgence of infections and an extension of the containment measures until mid-2021.
More specifically, the baseline scenario assumes that the strict lockdowns will be gradually eased in the Eurozone countries and only partial success in containing the virus, with a partial resurgence of infections in the coming quarters, which will necessitate continued containment measures. However, these measures are expected to result in lower economic costs than those incurred during the initial strict lockdowns and the economy is expected to recover gradually. This recovery should be mainly concentrated in the manufacturing sector and services not affected by the pandemic (medical and food), while other services, e.g. the arts, entertainment, housing and recreation will continue to be partially limited. The transition period will last until a medical solution is available, which is expected by mid-2021.
Consequently, the most likely scenario envisages a fall in GDP in Italy of 9.2% this year, followed by a gradual recovery over the next two years (4.8% in 2021 and 2.5% in 2022). As also indicated by the Bank of Italy, the negative trend in 2020 is expected to contribute, in addition to the fall in foreign demand and international tourist flows, to a fall in domestic demand, as a result of the suspension of certain economic activities to contain the contagion and the effects of the epidemic on jobs and household incomes. The recovery in GDP from the second half of 2020 should largely be due to the gradual elimination of the effects of the containment measures. However, the effects of the reduction in foreign demand and tourist flows, as well as the more cautious behaviour adopted by households and firms, are expected to be more persistent, slowing down the recovery of business activities to pre-crisis levels.

In the worst-case scenario it is assumed that the lockdown period will have a more damaging impact on economic activity and will not effectively contain the disease. Strict containment measures will remain in place during the post-lockdown transition period, although they will gradually be eased. This scenario envisages a strong resurgence of the virus. This second wave would require continued strict containment measures, although with lower economic costs than the initial lockdowns. Sustained efforts to prevent the spread of the virus would continue to dampen activity in sectors of the economy until a medical solution is available, which is expected by mid 2021.
Accordingly, more pessimistic assumptions have been considered from an economic perspective. These include further impacts on the confidence and spending and investment decisions of individuals and businesses, sharper falls in world trade and bottlenecks in global value chains with a further deterioration in financial conditions, as a result of the continuation of the epidemic or the need to combat possible new outbreaks. Again according to the guidance provided by the Bank of Italy, "this scenario assumes: (1) a greater fall in foreign demand than in the baseline scenario in the current year (20%) and a more gradual recovery over the next two years, both in world trade and tourist flows; (2) the emergence of new outbreaks of the epidemic that would lead to the adoption of new measures to suspend economic activities for a share of around 5% of the added value for 4 weeks during the summer months and around 15% for 6 weeks between the end of 2020 and the beginning of 2021; and (3) an increase in long-term yields of around 50 basis points and a tightening of credit conditions by around half that seen during the global financial crisis. These assumptions would have additional effects on GDP in the current year of -1.5, -1.3 and -1.2 percentage points respectively. Production would fall by approximately 13% this year and recover at a more moderate rate in 2021".
In summary, the worst-case scenario envisages a more drastic fall in GDP in 2020 accompanied by a weak recovery in the following two years.

Finally, the best-case scenario assumes a smaller decline in 2020, fully offset in the following two years. With regard to the health situation, the best-case scenario assumes effective containment of the virus. The strict lockdown period should be followed by a gradual recovery of the economies. The successful containment of the spread of the virus during the post-lockdown transition period will be due to rapid progress in treatment and medical solutions, paving the way for a gradual return to normal activity. This scenario does not foresee a resurgence of the virus and envisages that the economic responses from the authorities will be very successful.
Compared to the baseline scenario, the best-case scenario envisages a smaller decline in economic activity in the second quarter of 2020 with a stronger recovery already in the third quarter driven by the clear success of the healthcare measures, on the one hand, and the public support measures, on the other. In this scenario, the impacts of the pandemic are substantially offset over three years.

The above scenarios were applied for the forward-looking assessments for the purposes of IFRS 9 ECL of the performing portfolio. For the international subsidiary banks of the International Subsidiary Banks Division and Banca Intesa Russia, the assessments were made in line with the approach adopted centrally, taking into account the lower sophistication of some of the entities.

If, as already mentioned, the severe situation caused by the pandemic heralds an unprecedented economic crisis, it will be strongly contrasted by the fiscal policy measures directly supporting demand, which for Italy are included in the "Cura Italia" and "Rilancio" decrees. Measures such as the moratorium on credit and public guarantees on new loans will be essential to preventing possible further adverse effects and avoiding crises of liquidity for businesses. These measures, which have been adopted on a massive scale for the first time in recent history, are not captured by the internal modelling. Consequently, as a result of the existing exceptional situation, on the one hand, a number of adjustments have been made to the existing modelling, to bring it more into line with the specific current situation, by using the greater amount of information now available and improving the sensitivity to changes in macroeconomic conditions, and, on the other hand, one-off treatments have been introduced to include the impacts of the current scenario on microsectors with greater granularity and to take account of the above-mentioned public guarantees and moratoria, as also suggested by regulators and standard setters (see IFRS Foundation "*COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments: in the light of current* *uncertainty resulting from the COVID-19 pandemic*. *In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken*”).

More specifically, up to 31 March 2020, the cycle indicators used in the forecasting models for the counterparty categories (satellite models) were derived from the deterioration rates (transition to bad loan status) for the counterparty categories or macro-sectors provided by the Bank of Italy, because historically this was the only sufficiently extensive source. Under ordinary conditions, the trend in deterioration rates and default rates (transition to non-performing status) is generally comparable, however, in the event of rapid and extensive changes in the macroeconomic environment, such as the current ones, there is a misalignment between the behaviour of the two indicators, making the use of deterioration rates less appropriate for determining the portfolio’s point-in-time parameters. That said, the Bank of Italy has recently made available a sufficiently extensive historical set of default rates, which enable a more accurate estimate of the Point in Time (PIT) PDs. Within the deconditioning process for determining the Through-the-Cycle matrices, the default rates (transition to non-performing status) were then used instead of the previous deterioration rates. Internal default rates are used for the Corporate, SME Retail and Retail segments, which is a possibility now permitted, and is consistent with the choice regarding the system default rates, being considered more representative of the Group’s entity specific characteristics. However, the Bank of Italy system rates are used for the low default segments, for which the number of defaults in the internal time series is small with respect to the system.
To take into account the particular characteristics of the specific sectors in this particular situation, a management overlay was then developed to include ad hoc adjustments for 2020 based on bottom-up analyses derived from the Credit Risk Appetite framework and taking into account the sensitivity to the scenario of the counterparties’ prospective financial statements for the various microsectors. This management overlay, compared to the ECL estimates deriving from the new forecasting model linked to default rates and the current macroeconomic scenario, results in significant increases for certain sectors in the services segment of (and related to) tourism, leisure and luxury, as well as in the utility/energy segment.

With regard, on the other hand, to the treatment in the forward-looking ECL estimate of the government guarantees and moratoria the satellite models obviously do not take into account the impact of the major economic support initiatives implemented by the various countries where the Group has a credit exposure. This positive impact must be taken into account for the determination of the ECL, as also underlined by ESMA in its document “*Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9*” of 25 March this year: “*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 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”.* The ECB has also asked banks to *“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”.*
In particular, the system of government guarantees deriving from the “Cura Italia” and “Liquidità” Decrees are expected to have a positive impact, as they will enable banks to expand their support for the liquidity of businesses, enabling at least some of them to survive the current crisis. This aspect was therefore the subject of a specific quantitative analysis based on the detailed analyses carried out for the Credit Risk Appetite (CRA), comparing scenarios with and without government guarantees, which supported the managerial decision to include the benefits in the reduction of default rates and ECL estimates as at 30 June. The benefits of the moratoria have been estimated on the basis of specific considerations relating to the impact of the moratorium measures on prospective defaults, in particular with regard to the displacement in time of part of those defaults.

All of the valuation approaches described above had a significant impact on the income statement for the first half of the year. As already mentioned above, net adjustments to loans totalled 1,801 million euro. Of these, around 880 million euro are related to the “COVID-19” effects, 730 million euro of which for performing loans and the remainder for non-performing loans.

Certificates
As already detailed in the Interim Statement as at 31 March 2020, the market environment resulting from the COVID-19 emergency also had a significant effect on the trend in the Bank’s own credit risk (DVAs), 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) had shown 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 the purposes of the valuation as at 31 March 2020, the transfer to level 2 and the high level of uncertainty in the markets for the certificates had resulted in the need to make an adjustment (on a temporary basis and connected to the particular market conditions) to the DVAs, 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.
For the preparation of the Half-yearly Report, in light of the trades recorded on the certificates, the classification at level 2 was maintained for all the certificates that on 30 June had trades below the set threshold; whereas, in view of the greater stability of the market conditions compared to the end of March, the adjustment to the fair value measurement of the DVA of the certificates was almost completely released.

Impairment testing of goodwill and intangible assets
In line with the guidance issued by ESMA which views the effects of the COVID-19 pandemic as an indicator of impairment, a comprehensive impairment test on the recoverability of the value of goodwill (and the brand name) was carried out for the Half-yearly Report as at 30 June 2020, in line with the requirements of IAS 36. As the analyses carried out have yielded recoverable amounts for the various CGUs which are higher than their respective book values, no value adjustments have been made to intangible assets with indefinite useful life.

For detailed information, see the section “Balance Sheet Aggregates” in the Notes to this Half-yearly Report.
With regard to the other 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 Assets 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.

Impairment testing of equity investments and valuation of securities at fair value

Also for the impairment testing of the equity investments, in line with the ESMA guidance, the effects of the COVID-19 pandemic were considered as an indicator of impairment. Consequently, the valuation of the main equity investments was updated for the Half-yearly Report as at 30 June 2020. Specifically, in accordance with IAS 36, the Group’s valuation policies assume that for these types of assets the recoverable amounts correspond to their values in use, which require an estimate of the future cash flows that may be generated through the continuous use of the asset valued. A number of prudential measures were taken to factor the effects of the COVID-19 pandemic into the assessments. In particular, where present, the updates made available by the investees with regard to 2020 budget data or business plans were used. In addition, efforts were made to factor the results as at March 2020, which partly reflect the effects of the pandemic, into the figures for 2020 and partly into the figures for future years. Where, on the other hand, there were no updated data that took into account the effects of the pandemic, again on a prudential basis, the discount rate was increased by adding a scenario risk premium, as required by IAS 36. Finally, for the valuations that had a greater correlation with the macroeconomic scenario, reference was made to sensitivity analyses in order to better appreciate the impact of alternative scenarios on the valuations carried out.
This approach was also used for the valuation of the level 3 fair value equities, whose value is linked to the prospective cash flows generated by the investees or by specific assets in the portfolio (DCF and DDM income-based approaches or equity-based approaches). The fair value of level 1 and level 2 fair value equities, i.e. equities that derive their value directly (listed securities) or indirectly (convertible investments or investments closely linked to listed instruments or measured using market multiples) from market quotations, was updated as usual by referring to market quotations.
Finally, with regard to investments in Funds, the valuations for the Half-yearly report as at 30 June 2020 were updated based on the latest available NAV. However, in line with the overall prudent valuation approach adopted, the decision was made to only include any positive effects deriving from the update of the NAV in the half-yearly results as at 30 June 2020 when the NAV took due account of the estimated effects of the pandemic on the fund’s future results. The increases in fair value totalling 23 million euro deriving from valuations based on NAVs that did not factor in the effects of the pandemic were not recognised. This was because they generally related to the period-end figures as at 31 December 2019, for which, to date, it has not been possible to determine whether they can still be considered valid and relevant, in view of the changing economic and financial situation.

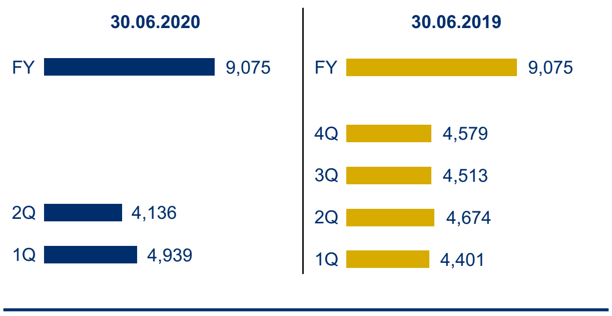
Probability test on deferred tax assets

In line with the ESMA guidance, which recommended that, also for their interim reports, issuers should consider the impact of COVID-19 on the DTAs recognised in accordance with IAS 12, an additional analysis was needed to verify whether the positive result from the probability test carried out for the 2019 financial statements could also be confirmed for the half-yearly report as at 30 June 2020. Accordingly, the probability test was repeated based on updated forward-looking earnings results to take account of changes in the reference macroeconomic and banking scenario and the update of the outlook for 2020, which required an overall revision of the Group’s economic and financial projections for the current year and for the subsequent years up to 2024 (these projections were the same as those used as the basis for the impairment testing of the intangible assets). The result of the above probability test was positive for all the outstanding deferred tax assets, which could therefore continue to be recognised for their full amount in the balance sheet as at 30 June 2020.
For detailed information, see the section “Balance Sheet Aggregates” in the Notes to this Half-yearly Report.

Consolidated results

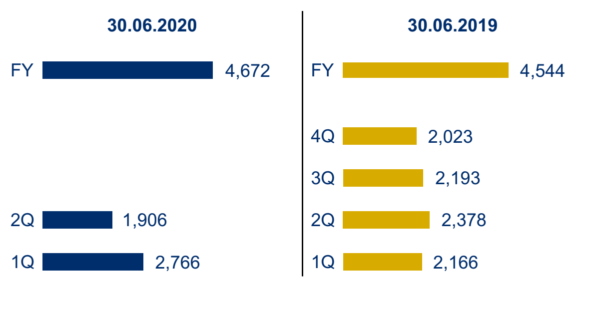
In the difficult environment outlined above, the Intesa Sanpaolo Group closed its income statement for the first half of 2020 with net income of 2,566 million euro, up around 13% on 2,266 million euro for the first six months of the previous year. The significant impact of the greater adjustments to loans and the decrease in net fee and commission income caused by the situation generated by the COVID-19 epidemic were fully offset by the consideration from the sale to Nexi of the business line consisting of the acquiring activities within the payment systems area, completed at the end of the half year.

Operating income
(millions of euro)



Operating income was stable compared to the first half of 2019, because the above-mentioned fall in net fee and commission income was offset by the positive performance of the Income from insurance business and of the Profits (Losses) on financial assets and liabilities designated at fair value. More specifically, net interest income, at 3,497 million euro, was substantially stable overall (-0.6%), mainly due to lower interest on financial assets, accounts with banks and non-performing assets, the latter as a result of the progressive reduction in NPLs. These changes fully offset the higher contribution from customer dealing and other net interest income.
The slight fall in net fee and commission income (-6.3% to 3,588 million euro), which represented around 40% of the Group's operating income, was attributable to the effects of the contraction in operations due to the situation generated by the COVID-19 epidemic. The performance of this caption reflected the fall in all the areas of operations: commercial banking (-8.1%), management, dealing and financial consultancy (-3.6%) and other net fee and commission income (-16.7%).
Income from insurance business – which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, and now also includes the results of RBM Salute – recorded an increase compared to the like-for-like figure for the first half of 2019 (+17.4% to 736 million euro), due to the increase in the technical margin. This caption also benefited from the performance of the recently acquired company in the healthcare segment.
The Profits (losses) on financial assets and liabilities designated at fair value, which include the profits (losses) on trading and the fair value adjustments in hedge accounting, were also up (approximately +15% to 1,257 million euro), ascribable to the assets designated at fair value through profit and loss.
Other operating income (expenses) – a caption which comprises profits on investments carried at equity and other income and expenses from continuing operations – recorded a slight net negative balance (net expenses of 3 million euro compared to net income of 9 million euro in the first half of 2019), with no change in the contribution from the investments carried at equity.
As a result of the above changes, operating income in the first half of 2020 amounted to 9,075 million euro, stable – as already mentioned – compared to the first six months of 2019.

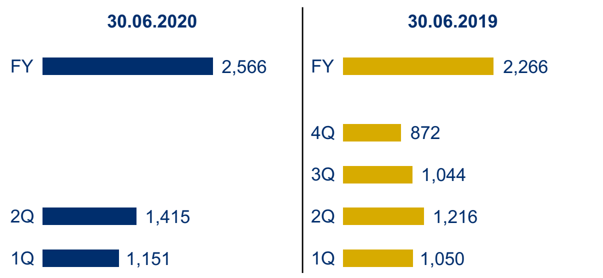
Operating margin
(millions of euro)



Operating costs continued to fall (-2.8% to 4,403 million euro) both for personnel expenses (-2.5%), as a result of 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 (-6.3%). The latter, despite the higher costs connected to the health emergency, recorded decreases in the main items of expenditure, also due to the additional control measures adopted. In contrast, amortisation and depreciation, which in accordance with IFRS 16 also include the amount relating to rights of use acquired under operating leases, increased (+3.7%).
The cost/income ratio for the period, which benefited from the careful cost management, stood at 48.5%.
As a result of these revenue and cost trends, the operating margin amounted to 4,672 million euro, up by 2.8% year on year.
As already mentioned, net adjustments to loans increased significantly (approximately +95% to 1,801 million euro). This was due – as already stated – to the revision of the scenario following the outbreak of the epidemic, with the recognition of around 880 million euro of adjustments, of which 730 million euro on performing loans. The annualised cost of risk, expressed as the ratio of net adjustments to net loans, rose to 89 basis points (compared to 53 basis points at the end of 2019) as a result of the above-mentioned scenario revision. Excluding the extraordinary component represented by the scenario revision, the annualised cost of risk fell to 46 basis points.
Other net provisions and net impairment losses on other assets were up (157 million euro from 67 million euro for the first half of 2019), due to the provisions for legal and tax disputes.
Other income (expenses), which include realised profits (losses) on investments and income and expenses not strictly linked to operations, had a negative balance (18 million euro) essentially due to non-recurring expenses, compared to a positive figure of 7 million euro for the first half of 2019. Income from discontinued operations, amounting to 1,163 million euro, included the contribution of the business line consisting of the acquiring activities within the payment systems area transferred to Nexi and, in particular, the capital gain recognised at the end of the half-year on completion of the sale (1,110 million euro,

of which 315 million euro consisting of the day-one profit on the purchase of the Nexi shares) and the income for the first half of the year from the business line sold (53 million euro).
As a result of the trends described above, gross income amounted to 3,859 million euro (around +7%).

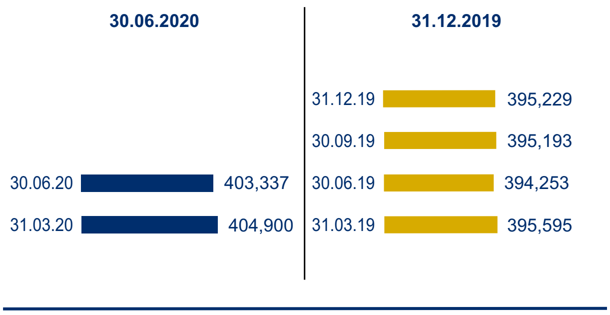
Net income (loss)
(millions of euro)



Taxes on income for the period amounted to 874 million euro, with a tax rate of 22.6%, which was particularly low due to the presence of the above-mentioned capital gain on the sale of the acquiring business line subject to a specific tax regime.
Net of tax, charges for integration and exit incentives were recorded of 50 million euro, as well as the effects of purchase price allocation of a further 50 million euro. The charges aimed at maintaining the stability of the banking industry were up on the first half of the previous year, to a total of 277 million euro after tax (242 million euro in the first half of 2019), corresponding to 394 million euro before tax, and essentially consisted of charges for the full year 2020 for ordinary and additional contributions to the resolution funds.
After allocating the income attributable to minority interests of 42 million euro, the income statement for the first half of 2020 closed, as stated, with net income of 2,566 million euro, compared to 2,266 million euro for the first six months of 2019.

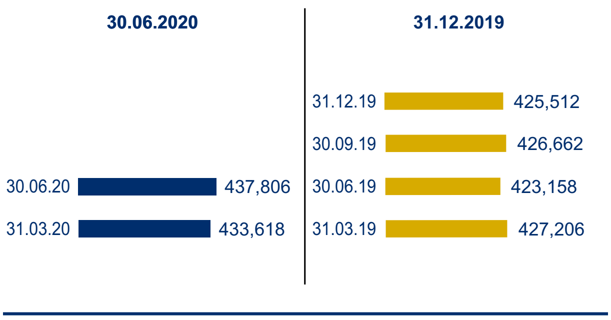
The income statement for the second quarter of 2020 in comparison to the previous quarter showed a decline in operating income (around -16% to 4,136 million euro), mainly due to the lower contribution of assets and liabilities designated at fair value and, to a lesser extent, to the reduction in net fee and commission income as a result of the situation generated by the COVID-19 epidemic.
More specifically, the contribution from net interest income in the second quarter was essentially stable compared to the first quarter (+0.2%), while net fee and commission income – as already mentioned – was down (-5.4%) on the previous quarter, which was only affected during March by the adverse effects of the market performance in the context of the COVID-19 pandemic. This decrease was mainly due to the lower contribution of the management, dealing and consultancy activities (-6.5%).
The contribution from insurance business in the second quarter of 2020, which also included the results of the recently acquired RBM salute, was substantially in line with the like-for-like figure for the first three months (-0.5%), as a result of a decline in the technical margin, offset by the increase in the net investment result.
As already mentioned, the contribution from profits (losses) on financial assets and liabilities designated at fair value was lower in the second quarter than in the first three months (around -74%), which had benefited from valuation effects deriving from the debt value adjustment (DVA), as well as the contribution from the sale of assets measured at fair value through other comprehensive income, as a result of market opportunities.
The net figure for other operating income and charges in the second quarter was an income of 12 million euro, compared to an expense of 15 million euro in the previous three months.
Operating costs were up slightly compared to the previous quarter (+2.6%), due to both personnel expenses (+1.8%) and administrative expenses (+5.4%), partly as a result of higher costs caused by the situation generated by the COVID-19 epidemic.
In relation to revenue and cost trends, the operating margin for the second quarter was lower than the margin in the first quarter (approximately -31% to 1,906 million euro).
Net adjustments to loans in the second quarter were much higher than in the first quarter (1,398 million euro compared to 403 million euro) as a result – as already mentioned several times above – of the scenario revision following the epidemic event.
The caption Other net provisions and net impairment losses on other assets showed a positive balance in the second quarter (262 million euro): the precautionary provision (312 million euro) made in the first quarter in advance against an initial estimate of the effects of the COVID-19 pandemic on performing loans was reversed, because the adjustments to loans reflected the updated valuation of the loan portfolio made by applying the usual methods adopted by the Group and taking into account the forward-looking scenario produced by the ECB and the Bank of Italy. Other income and expenses showed an expense of 21 million euro in the second quarter, attributable to non-recurring expenses, compared to income of 3 million euro in the first three months.
Income from discontinued operations in the second quarter, amounting to 1,134 million euro, included the contribution of the business line consisting of the acquiring activities transferred to Nexi and, in particular, the already mentioned capital gain recognised at the end of the quarter on completion of the sale (1,110 million euro) and the income for the second quarter from the business line sold (24 million euro).
The changes described above led to a slight decline in gross income (-4.7% to 1,883 million euro).
After the recognition of taxes on income, charges for integration and exit incentives, the effects of purchase price allocation, levies and other charges concerning the banking industry, and minority interests, the income statement for the second quarter closed with net income of 1,415 million euro, compared to 1,151 million euro for the previous quarter.

Loans to customers
(millions of euro)



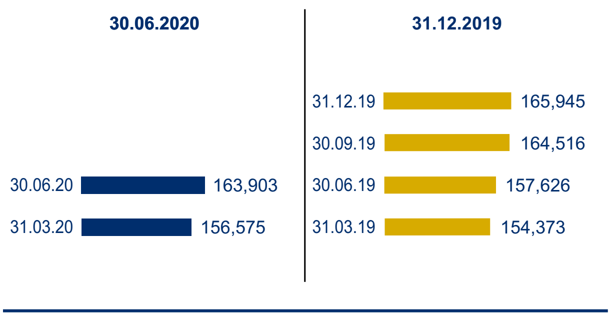
With regard to the balance sheet figures, as at 30 June 2020 loans to customers exceeded 403 billion euro, up slightly from the end of 2019 (+8.1 billion euro, or +2.1%), due to the varying trends in the components that make up the aggregate. Specifically, commercial banking loans were up overall (+5.5%), due to the positive performance of advances and other loans (+5 billion euro, or +3.4%) and mortgages and other medium-/long-term loans (+14.8 billion euro, or +8.4%), which reflect the Group's support for the Italian economy, including in relation to the extraordinary measures taken by the government, in the situation generated by the COVID-19 epidemic. The increases in these components offset the much smaller decrease in current accounts (-0.8 billion euro, -3.7%). The decrease in non-performing loans (-0.2 billion euro, or -1.5%) was offset by the increase in loans represented by securities (+0.3 billion euro, or +5.2%). Lastly, the financial component of the repurchase agreements was down sharply (-11 billion euro, or around 37%).

Direct deposits from banking business
(millions of euro)



On the funding side, direct deposits from banking business amounted to 438 billion euro in the first half of 2020, up from the end of 2019 (+12.3 billion euro, or +2.9%), driven by current accounts and deposits (+19 billion euro, or +6%), which continued the performance posted during the year, owing to customer appetite for maintaining a high level of liquidity also in the environment generated by the COVID-19 epidemic. There were also increases in subordinated liabilities (+1.6 billion euro, or around +17%), certificates of deposit (+0.6 billion euro, or around +14%) and other forms of funding (+2.4 billion euro, or +9.7%). In contrast, bonds decreased (-9.5 billion euro, or -14.5%), mainly at the Parent Company and the two subsidiaries in Luxembourg and Ireland. With regard to the financial component, repurchase agreements declined (-1.9 billion euro, or around -42%), largely due to transactions with institutional counterparties.

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



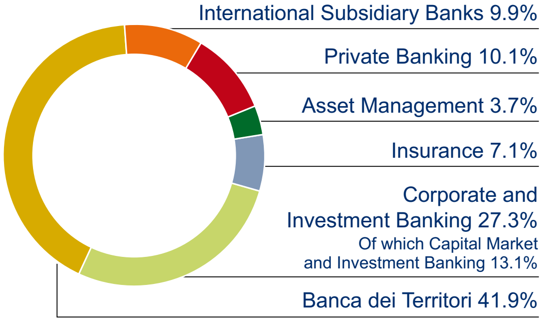
Direct deposits from insurance business – which also include the technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk – were down slightly at 164 billion euro at the end of the first half compared to the end of 2019 (-2 billion euro, or -1.2%). This performance was driven by the financial liabilities measured at fair value (-3.1 billion euro, -4.1%), consisting of unit-linked products, whose performance fully offset the growth in technical reserves (+0.7 billion euro, +0.8%) and other deposits (+0.3 billion euro, or around +41%).

The Group's indirect customer deposits at the end of June totalled 523 billion euro, down by around 2% on the end of 2019, attributable to both assets under management and assets under administration. Specifically, assets under management, which account for two-thirds of the total aggregate, decreased overall (around -7.4 billion euro, or -2.1%), due to the performance of mutual funds (-3.9%), portfolio management schemes (-1.4%), and technical reserves and insurance financial liabilities (-1.3%), which fully offset the increase in pension funds (+0.8%) and relations with institutional customers (+1.2%). The fall was lower, in absolute terms, for assets under administration (-3.6 billion euro, -2%), mainly consisting of third party securities and products held in custody.

Results of the Business Units

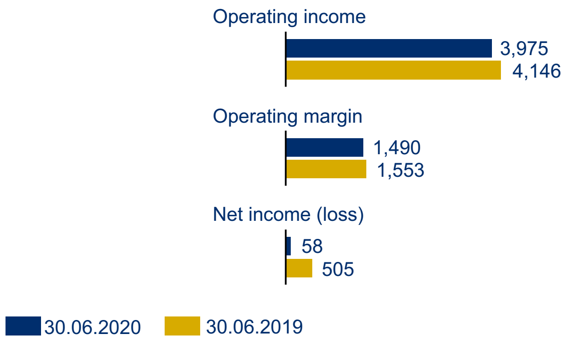
The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre, which is responsible for guidance, coordination and control of the entire Group, as well as for the Treasury and ALM operations.
The share of operating income attributable to each business segment confirmed that commercial banking activities in Italy continue to account for the majority (around 42% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (around 27%), commercial banking activity abroad (around 10%), private banking (around 10%), insurance business (around 7%) and asset management (around 4%).
Where necessary, the division figures for the comparative periods have been restated to reflect the changes in scope of the business units to enable a like-for-like comparison.

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

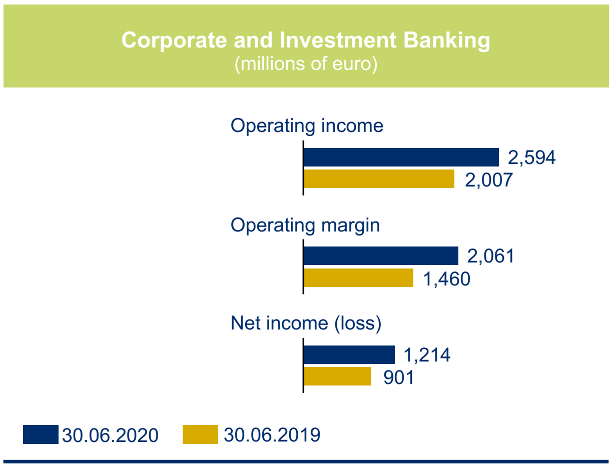


(1) Excluding Corporate Centre

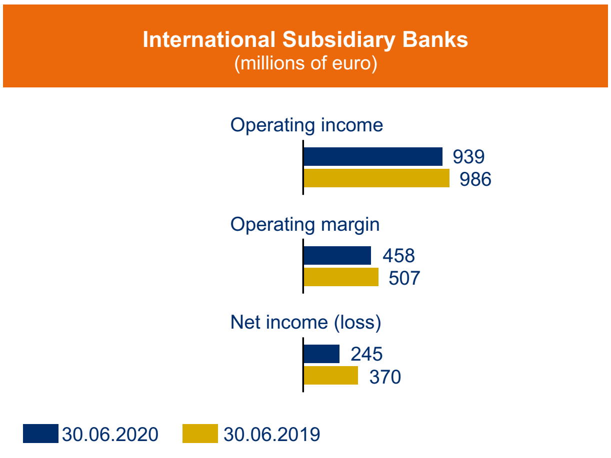
Banca dei Territori
(millions of euro)



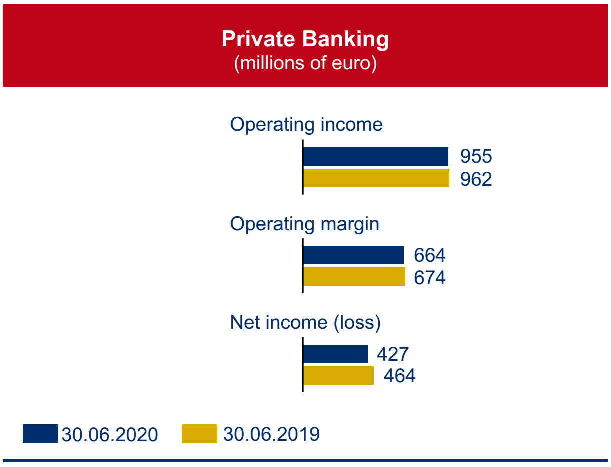
In the first half of 2020, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 3,975 million euro, representing around 40% of the Group's consolidated operating income, down (-4.1%) on the same period of the previous year, essentially due to the fall in net fee and commission income (-8.4%) in the environment generated by the COVID-19 epidemic, attributable to both the management, dealing and financial consultancy activities and the commercial banking activities. Net interest income held up well, remaining at the levels in the first half of 2019 (-0.1%). Among the other revenue components, which however provide a marginal contribution to the Division's income, profits (losses) on financial assets and liabilities designated at fair value grew (+14.7%), while other net operating income remained stable. Operating costs fell (-4.2% to 2,485 million euro), both for personnel expenses (-4.7%), due to the reduction in the average workforce, and for administrative expenses (-3.2%), despite higher costs connected to the health emergency. As a result of the changes described above, the operating margin amounted to 1,490 million euro (-4.1%). Gross income, equal to 96 million euro, was impacted by the significant adjustments to loans mainly due to the scenario revision as a result of the pandemic. Net income, after allocation to the Division of taxes and charges for integration, amounted to 58 million euro (-88.5%).
The balance sheet figures of the Division at the end of June 2020 showed growth in total volumes of loans and deposits compared to the end of 2019. In detail, loans to customers, were up by 7.4 billion euro (+3.8% to 202 billion euro), due mainly to medium-/long-term loans to SMEs and retail businesses, which reflect the Group's support to the Italian economy, also in relation to the extraordinary measures launched by the government. Direct deposits from banking business were up by 14 billion euro (+7% to 213 billion euro) in the amounts due to customers component, due to the higher liquidity on deposits held by businesses and individuals.



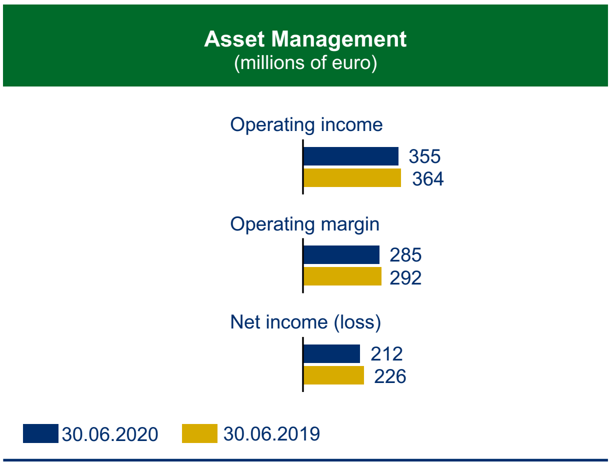
The Corporate and Investment Banking Division – which oversees corporate banking, investment banking and public finance in Italy and abroad and which changed its name to IMI Corporate & Investment Banking in July, following the merger of Banca IMI into the Parent Company – recorded operating income of 2,594 million euro in the first six months of 2020 (around 30% of the consolidated figure for the Group), a significant increase on the first half of 2019 (+29.2%). In detail, there was an increase in net interest income (+12.9% to 1,031 million euro), due to the higher contribution from loans to customers, as well as net fee and commission income (+7% to 488 million euro), due to the performance of the investment banking segment. Profits on financial assets and liabilities designated at fair value was the revenue caption with the highest increase (+433 million euro to 1,069 million euro), also as a result of the valuation effects. Operating costs decreased (-2.6% to 533 million euro) thanks to savings in administrative expenses. As a result of the above revenue and cost trends, the operating margin came to 2,061 million euro (+41.2%). Gross income, amounting to 1,826 million euro, was up (+36.6%), despite higher net adjustments to loans in the environment generated by the COVID-19 epidemic. Net income for the period came to 1,214 million euro (+34.7%).
The Division's intermediated volumes increased overall compared to the beginning of the year. In detail, loans to customers grew by 9.7 billion euro (+7.4% to 142 billion euro), essentially due to medium/long-term loans and structured finance transactions, as well as short-term transactions in the global markets segment. In contrast, direct deposits from banking business were down by 1.7 billion euro (-2% to 85 billion euro) due to the decrease in securities issued.



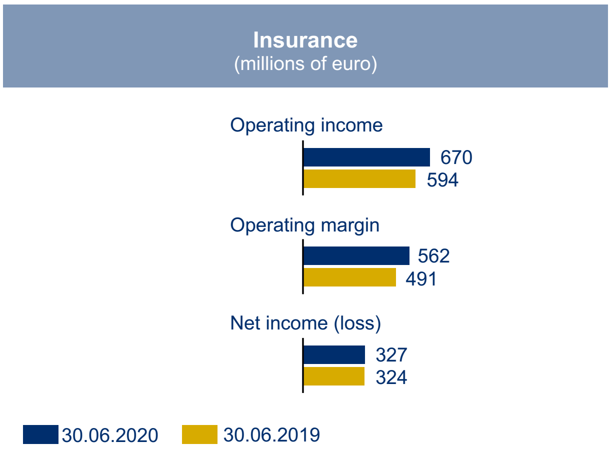
In the first half of 2020, the operating income of the Division – which is responsible for the Group's operations on international markets through commercial banking subsidiaries and associates – came to 939 million euro, down (-4.8%) on the same period of the previous year (-5.7% at constant exchange rates) due to the performance of net interest income (-3.8% to 653 million euro) and net fee and commission income (-9.5% to 239 million euro), only minimally offset by the greater contribution from the profits (losses) on financial assets and liabilities designated at fair value (+6.8% to 63 million euro). Operating costs increased slightly (+0.4% to 481 million euro, -0.2% at constant exchange rates) due to the modest growth in depreciation of property and equipment and administrative expenses, only partly offset by lower personnel expenses. As a result of the above revenue and cost trends, the operating margin decreased (-9.7%) to 458 million euro. Gross income decreased by 29.4% to 339 million euro, also due to higher adjustments to loans, primarily attributable to the pandemic. The Division closed the half year with net income of 245 million euro (-33.8%).
The Division's intermediated volumes grew at the end of June 2020, compared to the beginning of the year owing to both loans to customers (+2.3%) and direct deposits from banking business (+1.6%), in both its components – amounts due to customers and securities issued.



The Private Banking Division – which serves the top customer segment (Private and High Net Worth Individuals) creating value by offering top products and services – generated gross income of 630 million euro in the first six months of 2020, down (-4.3%) on the first half of 2019, due to lower operating income (-7 million euro) and higher operating costs (+3 million euro) and higher net adjustments to loans (+16 million euro).
The revenue performance was mainly attributable to a reduction in the net income (loss) of financial assets (-17 million euro), with net fee and commission income essentially stable (-3 million euro) and net interest income up (+13 million euro), due to higher average volumes. The Division ended the first half with a net income of 427 million euro, down (-8%) on the first six months of 2019.
As at 30 June 2020, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 199 billion euro. The decline compared to the end of 2019 (around -5 billion euro) was due to the market performance, which was affected by the pandemic. The assets under management component amounted to 121 billion euro (-1.7 billion euro).



The Asset Management Division – whose mission is to develop asset management solutions targeted at the Group's customers and which is present on the open market segment through the subsidiary Eurizon Capital and its subsidiaries – posted operating income of 355 million euro in the first half of 2020, down slightly (-2.5%) on the first half of 2019 mainly due to the negative contribution from the fair value measurement of the financial portfolio, in the presence of slightly higher fee and commission income (+0.3%). Operating costs fell (-2.8%), both for personnel expenses and administrative expenses, with the latter also due to the additional efficiency improvements achieved. As a result of the above revenue and cost trends, the operating margin came to 285 million euro (-2.4%). The Division closed the first half with net income of 212 million euro (-6.2%).
Overall, assets under management of the Asset Management Division totalled 258 billion euro as at 30 June 2020, down on the end of 2019 (-7.9 billion euro, or -3%), mainly as a result of market performance in the context of the COVID-19 epidemic. Net inflows for the half year were negative (-2.2 billion euro).



In the first half of 2020, the Insurance Division – consisting of Intesa Sanpaolo Vita, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo Assicura and Intesa Sanpaolo RBM Salute, with the mission of synergically developing the insurance product mix targeting Group customers – posted income for insurance business of 674 million euro, up (+12.5%) on the first half of 2019. The improvement in the result was mainly attributable to the increase in non-life business revenues, also due to lower claims recorded during the lockdown period related to the COVID-19 emergency.
Gross income was also up (+12.6% to 553 million euro), due to the positive performance of operating income, only partially offset by a small increase in operating costs (+4.9%) and adjustments to other assets.
Net income came to 327 million euro (+0.9%).

Highlights

In addition to the description provided in the paragraphs above concerning the environment generated by the COVID-19 epidemic and the related actions taken by the Bank and the Group, details are provided below of the significant events that occurred in the first half of the year.

The Public Purchase and Exchange Offer for all the UBI Banca shares

The acceptance period for the Voluntary Public Purchase and Exchange Offer launched by Intesa Sanpaolo for a maximum of 1,144,285,146 ordinary shares of Unione di Banche Italiane S.p.A., representing all subscribed and paid-in share capital, ended on 30 July 2020. The public takeover bid for UBI Shares reserved for "qualified institutional buyers" (Private Placement) launched by Intesa Sanpaolo in the United States also ended on that same date.

Detailed information about the Offer is provided in the Offer Document, the Information Document and all the documentation made available in accordance with the law, as well as the individual announcements made regarding the progress of the Offer and its outcome. However, we would like to remind you here that the Offer was amended on 17 July 2020 following the increase in the consideration for each UBI Share tendered in acceptance and that the acceptance period was extended ex officio by CONSOB from 28 July 2020 to 30 July 2020, pursuant to Article 40, paragraph 4, of the Issuers' Regulation, with Resolution No. 21460 of 27 July 2020.

In addition, based on the final results – announced to the market on 3 August 2020 – no. 1,031,958,027 UBI Shares have been tendered in acceptance of the Offer during the acceptance period (including those tendered through the Private Placement), equal to approximately 90.203% of UBI Shares subject of the Offer and representing approximately 90.184% of the share capital of UBI Banca.
At the Date of the Offer Document, the Offeror Intesa Sanpaolo held, directly and indirectly (including through fiduciary companies or nominees), a total of no. 288,204 ordinary shares of the Issuer, representing 0.0252% of the Issuer's share capital at the Date of the Offer Document and at 3 August 2020[12].
As result of the Offer's settlement (and of the Private Placement) and on the basis of the results of the Offer (and of the Private Placement), the Offeror will come to hold a total of no. 1,041,458,904 UBI Shares, representing approximately 91.0139% of the share capital of UBI Banca, given that (i) in the period between the Date of the Offer Document and 3 August 2020, the Offeror has not purchased (directly nor indirectly, including through fiduciary companies or nominees) UBI Shares outside the Offer (Private Placement included); (ii) no. 39,127 UBI Shares (equal to 0.0034% of the Issuer's share capital), that at the Date of the Offer Document Intesa Sanpaolo held in pledge with voting rights, were released from the pledge; and (iii) UBI Banca owns no. 9,251,800 own shares equal to 0.8085% of the Issuer's share.
Furthermore, it should be noted that acceptances "with reserves" have been received in respect of a total number of no. 334,454 UBI Shares from no. 103 acceptors. These acceptances have not been counted for determining the percent acceptance of the Offer.
Based on the final results indicated above, the Percentage Threshold Condition (i.e. the condition that the Offeror comes to hold an overall interest at least equal to 66.67% of the Issuer's share capital), as previously announced to the market, was fulfilled and all the other conditions precedent of the Offer were fulfilled or, as the case may be, waived by Intesa Sanpaolo. Therefore, the Offer is effective and the settlement shall take place.

The completion of the transaction enables 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 will 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 consisting of branches of the combined Group (redetermined at around 530) and related staff and customer relationships for a cash consideration.
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 included a binding agreement with UnipolSai Assicurazioni, for the disposal of the insurance activities related to the aforementioned going concern against a cash consideration.
The benefits of the transaction for stakeholders 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

[12] Please note that the calculation does not include the UBI Shares held by investment funds and/or other collective investments undertakings managed by companies of the ISP Group with full autonomy from ISP and in the interest of the relevant customers.

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.

Other highlights for the first half of 2020

As mentioned in the 2019 Annual Report, in December of that year the Board of Directors of Intesa Sanpaolo and Intesa Sanpaolo Vita approved the acquisition of a controlling interest in RBM Assicurazione Salute, a company founded in 2007 by the RBH Group and wholly owned by the Favaretto family.
In May 2020, Intesa Sanpaolo Vita – after having obtained the necessary authorisations from AGCM and IVASS – completed the acquisition of 50% plus one share of the company. Subsequently, in the three-year period 2026-2029, the shareholding will be increased to 100%, with the purchase price predetermined using a mixed formula (equity and income) based on the achievement of pre-set growth targets.
RBM Assicurazione Salute – the only independent player – is the third largest operator in Italy in the health insurance market, in addition to having partnerships with over 130 supplementary healthcare funds and care assistance funds in Italy.
The new company will operate under the new name Intesa Sanpaolo RBM Salute and will target both RBM's traditional customers and the Bank's retail and corporate customers, adding its healthcare services to the current "XME Protezione" product developed by Intesa Sanpaolo Assicura.

On 13 June 2020, the last retrocession was made of the high risk loans originating from the former Venetian banks reclassified as bad loans and/or unlikely-to-pay loans, considering that the decree whereby the Ministry of the Economy and Finance formalised the High Risk Guarantee for an amount of 3.7 billion euro and Law Decree 99/2017 had established that Intesa Sanpaolo's right to retrocede the high risk loans must be exercised "within three years of the sale", completed on 26 June 2017. The retrocession applied to a total portfolio with a gross value of 201 million euro, for a retrocession price, aligned to the book value, of 176 million euro, relating to loans reclassified as non-performing in 2020, until the end of May. Another retrocession event occurred in the second quarter of 2020, on 18 April, involving a total of 121 million euro of gross value, for a retrocession price, in line with the book value, of 103 million euro, relating to loans reclassified as non-performing in the third and fourth quarters of 2019. Accordingly, as a result of the above, as at 30 June 2020 there were no longer any high risk loans reclassified as assets held for sale pursuant to IFRS 5 and no other retrocession events will be planned. Overall, following the acquisition, the Group sold loans to banks in liquidation for a gross value of 1,138 million euro at a price of 953 million euro.

On 26 June 2020, Intesa Sanpaolo reached an agreement with Aleàtica S.A.U., a Spanish company specialising in infrastructure investments, wholly-owned by the Australian IFM Global Infrastructure Fund, for the sale of the entire equity investment held in Autostrade Lombarde (of which Intesa Sanpaolo holds a 55.8% interest) and its operating subsidiary Brebemi, the concession holder for the Milan-Brescia (A35) motorway segment, for a consideration of around 300 million euro. The transaction is expected to be completed by the end of 2020 and is subject to the usual authorisations from the competent authorities.

On 30 June 2020, after having received the required authorisations from the relevant authorities, Intesa Sanpaolo and Nexi finalised the strategic agreement, relating to the payment systems, signed on 19 December 2019 and disclosed to the market on the same day, involving in particular:
- the transfer to Nexi of the Intesa Sanpaolo business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. Intesa Sanpaolo shall retain the sale force dedicated to acquiring new customers;
- a long-term partnership, with Nexi to become the sole partner of Intesa Sanpaolo in the acquiring activities and the latter to distribute the acquiring services provided by Nexi while maintaining the relationship with its customers.

The business line was transferred through contribution to a Nexi subsidiary. Intesa Sanpaolo sold the shares received from the contribution to Nexi and used part of the consideration to purchase shares of Nexi from the latter's reference shareholder, Mercury UK HoldCo Limited, equal to a 9.9% shareholding of Intesa Sanpaolo in the share capital of Nexi. The finalisation of the transaction generated a net capital gain of around 1.1 billion euro for the Intesa Sanpaolo Group's consolidated income statement in the second quarter of 2020. This figure has been calculated including the effect attributable to the difference between the purchase price of the 9.9% of the Nexi share capital and the corresponding value resulting from the stock exchange price of the Nexi shares.

As envisaged by the 2018-2021 Business Plan regarding the reduction of legal entities, following the authorisation released by the European Central Bank in accordance with the regulations in force, on 2 April 2020 the plan for the merger by incorporation of Banca IMI S.p.A. into Intesa Sanpaolo S.p.A. was filed with the Torino Company Register, as provided for by Article 2501-ter of the Italian Civil Code. The merger was subsequently approved by the Board of Directors of Intesa Sanpaolo on 5 May 2020, because the possibility had not arisen, pursuant to Article 2505-bis, last paragraph, of the Italian Civil Code, for the shareholders of Intesa Sanpaolo holding at least five per cent of the Bank's share capital, to request – by 10 April 2020 – that the approval be resolved by shareholders at an Extraordinary Shareholders' Meeting, in compliance with Article 2502, paragraph 1, of the Italian Civil Code. The deed of merger of Banca IMI S.p.A. into Intesa Sanpaolo S.p.A. was signed on 19 June 2020.
The merger took effect for third parties from 20 July 2020, in accordance with the resolutions passed by the Shareholders' and Board of Directors' Meetings of the two companies and the provisions of the merger deed. The integration of Banca IMI into the Parent Company, with the consequent creation of the new IMI Corporate & Investment Banking Division, is part of Intesa Sanpaolo's 2018-21 Business Plan, as a key driver for its implementation.
The new Division maintains a clear reference to Banca IMI, including at the level of its brand, to emphasise that the integration represents the continuation of a process of excellence that began several years ago and has now been further reinforced in order to be optimally positioned to face the challenges that only organisations focused on the future, but with a wealth of solid history behind them, will be capable of overcoming.
The creation of the new IMI Corporate & Investment Banking Division will allow the Intesa Sanpaolo Group to serve its corporate, public administration and financial institution customers even more effectively by drawing on a unique business model, specialist expertise and top-tier professionalism, in addition to a brand that represents Italian excellence in capital markets and investment banking and tells a story of essential values and lasting successes. This is in addition to the further reinforcement of an international structure consolidated over the years, based on a network of corporate hubs and branches located in 25 countries worldwide, capable of supporting and assisting customers in their activities outside Italy's borders.

As already detailed in the dedicated paragraph above, the acceptance period for the Voluntary Public Purchase and Exchange Offer made by Intesa Sanpaolo on a maximum of 1,144,285,146 ordinary shares of Unione di Banche Italiane S.p.A. ended on 30 July.

The progress of the 2018-2021 Business Plan

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

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

De-risking
De-risking is the first pillar of the Business Plan through which the Group aims to optimise the risk-return ratio for the total loans, both through asset disposals and risk mitigation strategies.
In the first half of 2020, the Group's gross stock of NPLs decreased to 29.9 billion euro (-22.2 billion euro since the start of the Plan), while the gross NPL ratio fell to 7.1% (11.9% at the start of the Plan). The cost of risk stood at 89 basis points. Excluding the extraordinary component represented by the revision of the scenario as a result of the situation generated by the COVID-19 epidemic, the annualised cost of risk fell to 46 basis points.
Various initiatives contributed to these results. With regard to the management and recovery of the Group's bad loans, the cooperation continued with Intrum Italy, a company jointly owned by Intesa Sanpaolo.
The level of UTP on business loans has been progressively reduced thanks to the scale-up of proactive credit portfolio management, which, from the first half of 2020, has also been supported by the partnership with Prelios.
The Pulse Platform enabled actions to be taken for retail customers in arrears, both in terms of collections and proposals of negotiation solutions. In the first half of the year, its scope of activities was extended to include the granting of moratoria to customers in difficulty due to circumstances connected with COVID-19, a service previously only provided by the Banca dei Territori branches.
The Active Credit Portfolio Steering unit also continued its activities, focused on: i) reducing capital absorption through credit risk transfer transactions, to facilitate access to credit for businesses; and ii) applying the new credit strategy framework to steer lending towards the most attractive economic sectors in terms of risk/return.

Cost reduction

Cost reduction is the Second Pillar of the Business Plan, through which the Group aims to reduce the level of both fixed and variable costs on the income statement.

The staff reduction and renewal project sets a series of coordinated objectives in terms of reduction in labour costs, reskilling and staff renewal. In the first half of 2020, costs for personnel (87,996 people at the end of June) amounted to around 2.736 billion euro. The reskilling process involved over 767 people (3,795 since the beginning of the Plan), while the renewal process resulted in the hiring of 200 specialist professionals (1,032 since the beginning of the Plan). With regard to professional profiles with flexible work employment contracts, there were 270 contracts in place and around 200 active internships.

The Branch strategy project involves the streamlining of the network of bank branches and their supplementation with alternative physical and virtual channels and non-captive networks. With regard to the physical channels, the number of retail branches fell to 3,082 in the first half of 2020 (-954 since the start of the Plan) while the expansion continued of the self-banking network (ATMs, cash and deposit machines, self-service tills). The launch of the NewCo with SisalPay at the beginning of the year will enable Banca 5 to extend its proximity banking services to around 50,000 affiliated operating points.

The development of virtual channels is continuing with the strengthening of the Online Branch and the Remote Relationship Manager project.

With regard to non-captive networks, a series of initiatives are under way to expand the commercial activities carried out in partnership with Poste Italiane.

Overall, the Branch strategy activities made it possible to extend the Group’s coverage to 90% of the Italian population.

The Real estate scale back project aims to reduce the costs incurred for real estate properties through the disposal of redundant spaces and the identification of less costly locations. In the first half of 2020, most of the activity was concentrated in the period prior to the lockdown (9 March), with the closure of 77 Retail branches and the reduction of unused space in a building in Milan, which led to a further reduction in occupied space of around 22,000 square metres. The renegotiation of leases resumed after the end of the lockdown.

The process of corporate simplification continued with the merger of Banca IMI into the Parent Company, which, as already mentioned, was completed on 20 July 2020.

Lastly, the plan to reduce administrative expenses fosters the achievement of ICT synergies, the improvement in the efficiency of structure costs, the control of advisory fees, the centralisation of purchasing decisions, and the extension of internal best practice to the Group’s international subsidiary banks.

Revenues

The third Pillar of the Business Plan seeks to increase Operating Income by capturing significant business opportunities in all the Divisions.

To achieve its objective of becoming one of the top four P&C Italian insurance companies and the first in retail non-motor, the Group is continuously renewing its strategies for the offering of products and their distribution, and after-sales and claims management.

In the most acute phase of the health emergency, Intesa Sanpaolo demonstrated its commitment to its customers by updating its offering to meet new insurance cover needs. The cover for some customers already insured in the health and financing sector was extended and a new Collective Pandemic Policy was launched to protect companies and their employees.

The focus continued on the non-motor offering for retail and SME customers, which also included updating the health, home and accident modules of the “XME Protezione” policy.

The new service model provides for the re-evaluation of the central role of the relationship manager, whose expertise in insurance is ensured through specific training and coaching programmes. The efficiency improvement of processes is continuing through the dematerialisation of documents, which has already been completed for the motor sector.

Since the start of the Plan, after-sales management has been strengthened by the addition of 385 FTEs.[13]

The integration is also under way for RBM Salute, following the completion of its acquisition in May: as already mentioned, Intesa Sanpaolo Vita acquired 50% +1 share of RBM Assicurazione Salute and plans to increase its shareholding up to 100% of the share capital, progressively from 2026 to 2029. This transaction will enable the Group to significantly strengthen its position in the Health business. The company will operate with the new name Intesa Sanpaolo RBM Salute and will target both the traditional customers of RBM Assicurazione Salute (health funds, companies and public entities) and the Bank’s retail and business customers.

An insurance agency will also be set up to sell personalised products, mainly dedicated to mid and large corporate customers, leveraging cross-selling opportunities through the offering of insurance solutions by all the companies in the Insurance Division.

The international growth of Private Banking has been boosted by launching the Advisory services in Latin America, making the product offering for the Middle East market fully operational and developing the target service and operating model for the Luxembourg operations.

In Italy, since the start of the Plan, the sales network of the Private Bankers has been strengthened by adding around 650 professionals and extending the use of flexible banking employment contracts.

New products were successfully marketed, with placements higher than expected, including several portfolio management schemes and alternative funds.

The service models are being upgraded for the various customer segments of Intesa Sanpaolo Private Banking and Fideuram, expanding the HNWI (High Net Worth Individuals) structure for Private Banking and defining differentiated service models for each customer segment for Fideuram.

Finally, the development of the multichannel remote banking services continued for both Fideuram and Intesa Sanpaolo Private Banking, which led to a significant increase in operations.

With regard to asset management, the Group’s product unit provides ongoing support to the business structures by developing products that meet the needs and investment objectives expressed by the various customer segments. For

[13] This figure includes the after-sales management staff of RBM Salute.

example, for retail customers, products have been designed for the enhancement of liquidity with capital protection at maturity and gradual entry into the stock market.
The strengthening also continued of “Valore Insieme”, the advanced advisory service developed to leverage the Group’s specific expertise in managing the investment, insurance, real estate and succession needs of customers.
The evolution of the branch strategy is based, among other things, on: i) the strengthening of the non-captive channel through the continuation of the partnership with the Poste Group; ii) the expansion of distribution through digital channels, including the development of the “Risparmio Digitale” services to allow customers to invest in mutual funds via apps; and iii) the gradual extension of the flexible work employment contract, which increases business effectiveness thanks to a more entrepreneurial approach to work management.
The international expansion of Eurizon Capital continued with the opening of a branch in Spain.
The Banca dei Territori Division’s strategy for SMEs is aimed at supporting them in their process of growth through teams of dedicated specialists and an offering that also includes structured and extraordinary finance services.
Work continued on the digitisation and dematerialisation of processes and products aimed at businesses in order to foster an effective remote relationship with customers.
The development continued of insurance products aimed at business customers, also taking into account the new cover needs related to the health emergency.
Activities in the area of loans included the support for the liquidity of companies during the lockdown period, the continuation of the Basket Bond programme and the opening of the Circular Economy Plafond to green investments.
The development continued of non-financial services in the areas of welfare, corporate travel management, digitalisation and networking, supply of capital goods, and distance learning. The personal computer rental service, set up during the health emergency, has enabled companies to protect the health of their employees, providing them with the opportunity to work from home.
The Bank focuses in particular on the international expansion of companies, adopting an approach that is not only commercial, through the offering of dedicated services and products, but also based on providing advice and guidance. Of particular importance, in this regard, is the participation in trade fairs and the organisation of thematic events, which can also be a significant opportunity for customers to develop a network of international relations to help develop business ideas.
The continued development of the “Dialogo Industriale” platform is enabling managers to liaise with entrepreneurs on an increasingly informed and effective basis, improving their ability to listen and understand customer needs.
To develop international business, the Corporate and Investment Banking Division, in addition to enhancing the marketing for selected customers, completed the hiring of 74 specialists is identifying other priority positions to be filled in order to strengthen the coverage and skills of the international network.
The new Originate to Share model is operational and the relationships continued with a selected number of counterparties, with regard to both origination and distribution, for the establishment of collaboration and partnership agreements.
Work continued on the development of a new strategy for the International Subsidiary Banks, aimed at optimising the international presence and maximising synergies within the Group.
Within the process of extending the HUB approach, the repositioning of Intesa Sanpaolo Bank Slovenia in the SEE HUB continued, with the activation of digital and CRM services for all customers. Work is also continuing on aligning the operating model and strengthening commercial synergies for the EC HUB. Implementation of the repositioning plan in Ukraine also continued.
The activities of the Constellation (Core Banking System Replacement) project continued in Slovakia and the Czech Republic. A new service and operational model for IT is currently being studied for the international subsidiary banks and the Group’s target distribution model is being extended to Slovakia, Croatia, Serbia, Hungary, Slovenia, Romania, Albania and Bosnia.
The adoption of the advanced advisory model in wealth management has been progressively extended to the customer segments with more sophisticated investment needs. The activation of new functionalities and services of the digital channels is continuing at the participating banks (Croatia, Hungary, Egypt, Albania and Slovenia) and initiatives have been implemented to encourage the use of digital services during the health emergency.
With regard to the development of the wealth management services in China, after having obtained the license for the distribution of mutual funds and the business permit, Yi Tsai started its business activities in mid-January. The first phase consisted of the start of the execution only sale of products via app.
With regard to the establishment of the security company, the procedure with the Bank of Italy/ECB to obtain authorisation to operate in China was completed and the documentation for the application was submitted to the Chinese regulator CSRC to obtain the necessary licences.

People and Digital Transformation

The Group continuously implements a series of initiatives dedicated to its personnel, who are considered to be Intesa Sanpaolo’s most important resource.
The People Care project aims to ensure, at Group level, the effective design, implementation and - where necessary - direct management of services and initiatives aimed at improving quality of life and well-being within the company, by enhancing employee engagement and sense of belonging. A service model has been created, which is underpinned by four pillars: enhancement of the offering of services to the people within the company; active consultation and analysis of the needs of company employees; monitoring of the leading companies in People Care systems at international level, to identify best practices; and, lastly, implementation and development of the offering of new services.
Following the launch of the initiative, a process has started, which involved, on the one hand, increasing customisation of the Personal Care Services, with the creation of coherent and correlated service packages, and, on the other hand, the introduction of two other completely new initiatives for Intesa Sanpaolo.
The first was Consultation and Support, a psychological support service provided remotely by the specialist company Psya and supervised by the School of Psychology of the Università Cattolica of Milan. Launched in October 2019 on a pilot basis, the Consultation and Support service has been extended since March to cover the entire company population in Italy, also as a result of the Coronavirus emergency and the sudden consequent lockdown.
The second and most recent innovation is the launch, in May, of CareLab, a platform dedicated to personal wellbeing that provides access to multimedia content, instruments and initiatives to consolidate or promote healthy lifestyles and habits,

which have been created by experts and are divided into three areas: Nutrition, Movement, and Energy and Emotional Wellbeing.
The first pilots were also started for the Diversity & Inclusion project, aimed at creating equal opportunities and promoting strong engagement among the staff: the objective is to support greater inclusion and create the conditions for the full empowerment of women and people with various disabilities and for the effective reintegration of employees who have been absent from work for a long time.
The job rotation continued for the approximately 250 people involved in the International Talent Program aimed at developing the next generation of middle management through training programs, managerial mentoring and personalised career paths.
On the Personnel management front, a progressive digital transformation of HR services is underway, which involves a review of management models and processes, focusing on dematerialisation and centralisation of administrative procedures.
The process was also initiated for the implementation of the Strategic Succession Management Model, whose primary goal is to ensure managerial continuity for the roles of responsibility within the Group, with a view to ensuring business continuity, while also enabling the development of Management by proactively identifying the best people in advance in the different managerial levels and job areas in order to promote their development through targeted actions.
The enhancement of employee skills was implemented by providing around 5.9 million training hours in the first half of the year, an increase of 109% compared to last year. Major investments in training enabled the extension of the digital training offering to all Group employees. Specifically, the introduction of new information content (around 1,100 Learning Objects added in the second quarter, around 6,700 in total) has enabled greater access to the training platforms (Apprendo, App MyLa for the staff of Banca dei Territori and the Management School).
Lastly, in response to the COVID-19 emergency, and as already discussed in detail, the use of remote working was strengthened: organisational processes were revised and specific regulations were adopted, together with technological and IT measures, to enable the extension of remote working within the Group, also to the personnel of the Local Network and the Online Branches. To date, around 60,000 staff have access to this innovative way of working.

The Business Plan also envisages significant investments in Digital Transformation in all the Group’s areas of operations, with a particular focus on the development of self-banking and remote services, cybersecurity, data management and advanced analytics, and the digitisation of company processes.
With regard to the distribution channels, the figures for the first half of 2020 show an increasing diffusion of digital services in terms of customers, products and sales, with around 9.8 million multi-channel customers, 6 million app users and 54,300 Online Branch customers.
The products available on multi-channel platforms account for 85% of the offering. Sales through remote channels, also due to the COVID-19 emergency, rose to 25% of the total (from 9.2% in 2019).
The extension also continued of the target cyber security model, which currently comprises 33 Group companies.
The data management projects, in particular the advanced analytics and artificial intelligence projects, pursue objectives strictly coordinated with commercial objectives, such as service customisation, process automation (for example for the Robot Process Automation for asset management) and de-risking.
As a result of the Group’s high level of digitisation (41% of total operations), we were able to respond to the COVID-19 emergency with a series of extraordinary measures, including accelerating the adoption of remote working (by supplying 22,800 new laptops), strengthening market access infrastructure to handle high peaks in operations and a series of specific initiatives to strengthen remote processes.
To promote innovation within the Group, a number of initiatives have also been launched whose aims include identifying the most important trends in technology and finance, setting the efficiency threshold for investments and using new service design methods for project implementation. Special attention is also given to the study and management of relations with the Fintech Ecosystem, in order to identify best practices and possible innovative partners for the development of products and services. With regard to Fintech partnerships, these include the Group’s investments in Yolo (insurtech), BacktoWork24 (equity crowdfunding), Diamanti Inc. (containers for cloud and open source environments), and MatiPay (online payments from vending machines).

Progetto Cultura

The promotion of art and culture has always been a strategic asset for Italy, which also supports social and economic development. With this in mind, Intesa Sanpaolo has included the Progetto Cultura in its Business Plan, reflecting its active and direct commitment to the growth of the communities it serves. This project, which has become a key feature of the Bank’s identity, is implemented through three-year programmes of activities aimed at the whole of the country, which are designed, implemented and organised by the Parent Company’s Art, Culture and Historical Heritage Department, in partnership with leading Italian and international cultural and museum institutions.

In the current situation of severe difficulties caused by the COVID-19 epidemic, the Bank’s commitment to supporting and promoting arts and culture as a driving force for change and essential progress for the relaunch of the country is proving to be extremely necessary and vital. Below is a description of the initiatives carried out during the first half of the year.

Gallerie d’Italia
The Gallerie d’Italia, Intesa Sanpaolo’s exhibition spaces in Milan, Naples and Vicenza, promote the Group’s historical buildings and art collections and hold temporary exhibitions. The 36th floor of the Intesa Sanpaolo Skyscraper in Turin is another exhibition venue.
Before the lockdown, the Gallerie were fully open to the public from 1 January to 7 March (with an interruption from 25 February to 2 March at the Milan and Vicenza venues, following the initial signs of the health crisis). During these two months, the exhibition spaces were visited by almost 160,000 people, continuing 7 exhibitions opened in the final months of 2019 and opening 3 new dossier exhibitions, consisting of the following: At the Gallerie di Piazza Scala in Milan: “Canova|Thorvaldsen. The birth of modern sculpture” (curated by Fernando Mazzocca and Stefano Grandesso, in

collaboration with the Hermitage Museum in St. Petersburg and the Thorvaldsen Museum in Copenhagen) which was the most visited exhibition in Italy during its opening period; “Maurizio Galimberti. Leonardo da Vinci’s Last Supper”; “Umberto Mariani. Fragments from Byzantium Act III”; “Stories Recovered. Documents from the anti-Semitic persecution in the Historical Archives”; “Newspaper Heroes. Mimmo Paladino for the Carabinieri Police Force. Texts by Margaret Mazzantini” (in collaboration with the Carabinieri Police Force). At the Gallerie di Palazzo Zevallos Stigliano in Naples: “Berlin 1989. Painting in Germany before and after the Wall” (curated by Luca Beatrice); “David and Caravaggio. The cruelty of nature, the scent of the ideal” (curated by Fernando Mazzocca, in collaboration with the Institut Français and the Museo e Real Bosco di Capodimonte in Naples). At the Gallerie di Palazzo Leoni Montanari in Vicenza, “Kandinskij, Gončarova, Chagall. The sacred and beauty in Russian art” (curated by Silvia Burini and Giuseppe Barbieri in collaboration with the CSAR-Centre of Studies of Russian Art of the Ca’ Foscari University of Venice). “Paul Gauguin. Tahitians in a room” (special guest from the Pushkin Museum in Moscow). At the Skyscraper in Turin: “Giovanni Bellini. Madonna di Alzano” (special guest from the Accademia Carrara in Bergamo). Also in Turin, at Palazzo Madama, we conceived and co-produced the exhibition “Andrea Mantegna. Reliving the ancient, building the modern” with Fondazione Torino Musei and Civita Mostre e Musei (12 December 2019 – 4 May 2020, extended to 28 May - 20 July).

In reflection of the importance given to education, training, social inclusion and accessibility, in the first two months of 2020 more than 17,000 children and young people attended workshops for schools and more than 2,000 people with disabilities took part in dedicated courses, offered free of charge.

The closure of the three Gallerie, in compliance with the government measures aimed at containing the spread of COVID-19 (from 8 March to 27 May in Vicenza; up to 1 June in Milan and Naples), forced the interruption of on-site activities and exhibitions in progress and the postponement of new exhibitions scheduled for the spring.

The commitment continued by increasing online initiatives (on the websites and social channels of the Gallerie d’Italia), both to ensure the promotion of the Group’s historical and art assets and to maintain and enrich the relationship with the public, through the opportunities offered by digital access. From 9 March, the Bank joined the #iorestoacasa (I stay at home) campaign promoted by the Ministry of Culture and Tourism, devising and developing specific initiatives on social platforms, which have received growing interest: the “immersive” virtual tour of the “Canova | Thorvaldsen” exhibition, with explanations in sign language, launched on 18 May on the International Museum Day - ICOM Italy dedicated to “Museums for equality: diversity and inclusion” (78,415 unsolicited views and 4,705 unsolicited interactions; 7,933,525 sponsored views and 462,543 sponsored interactions); the series of video clips “A day at the museum” produced by Sky ArteHD, with the participation of Luca Massimo Barbero, associate curator for the Intesa Sanpaolo modern and contemporary art collections, in dialogue with the public (from the end of April; 162,266 views and 4,228 interactions); “Travelling with Hector”, an itinerary for families and children in particular, with interactive videos, quizzes and creative offerings revolving around our museum collections (from the end of April; 112,647 views and 894 interactions); and “Publifoto Archive”, a weekly column focusing on the extensive photographic collection from the Intesa Sanpaolo Publifoto Archive (from 9 April; views 109,365 and interactions 4,581). In the educational realm, the workshops and lessons of “Careers in Art”, the work-study programme created by the Gallerie d’Italia aimed at local secondary schools, were also converted into a digital version (500 hours of total activities involving 250 children). During the months of social distancing, material (articles, images, audio and video) was also created and published on the company intranet to present and tell the story of the Group’s historical buildings, art assets and archive collections: the weekly “Stories of rebirth” format illustrates the fundamental role played by the banks that have joined the Group in supporting communities at the most critical times in Italy’s history, documented through the materials of the Historical Archives; and monthly programmes provide detailed information about the protection and promotion work for the Group’s historical and art assets and archive collections.

The reopening of the museums led to the extension to 28 June of the exhibitions that had been interrupted: the Canova and Thorvaldsen exhibition in Milan and the David and Caravaggio exhibition in Naples. The exhibition in Milan reached a total of 200,000 visitors, considering that, in spite of the restricted daily entrances and shorter opening hours, 5,800 visitors were registered during the weeks of the extension, almost reaching the maximum number of admissions allowed.

During the emergency, the management of the exhibition projects required considerable effort, involving daily discussions with the external and internal stakeholders involved, both in relation to the exhibitions in progress and the exhibitions already scheduled for the lockdown months and the following months. The dialogue with Italian and international public and private providers, artists, curators, design architects, institutional partners and the various suppliers of goods and services related to the exhibitions (restorers, publishing houses, transport companies, insurance companies, etc.), as well as the Bank’s structures involved, was coordinated and aligned in order to continuously update the time schedules and to jointly develop organisational strategies based on the evolution of the crisis. Thanks to direct dialogue with museums, public entities and private lenders, the various operational possibilities for the return of the loaned works were assessed on a case-by-case basis. The efforts made to protect the loaned assets also received formal praise and recognition from the main Italian and foreign museums.

With regard to the exhibitions planned for the autumn, the organisational work continued with requests and management of loan applications. Despite the uncertainties and difficulties being experienced by all museums in Europe and the United States, the Bank remained in contact with the lenders to verify all the possibilities for obtaining the artworks considered essential for future exhibition projects.

To organise the reopening of the Gallerie d’Italia in full compliance with health and safety measures, a working group was set up consisting of a number of the company structures to develop a plan in line with the regulations issued by the Prime Ministerial Decree and the regional ordinances, in accordance with the guidance from the Technical Scientific Committee of the Department of Civil Protection. In the belief that the spaces dedicated to culture need continue to be welcoming and attractive to everyone, even when they have been adapted to the new environment, organisational and behavioural guidelines have been created to ensure the protection of visitors and staff involved in the provision of museum services, while also providing a high quality experience of cultural assets, also thanks to the large spaces in the Gallerie that allow the public to be accommodated safely.

The project for Intesa Sanpaolo’s new museum in Piazza San Carlo in Turin, completing the Bank’s museum spaces, was presented to the press on 14 January. The fourth venue of the Gallerie d’Italia will be housed in the Palazzo Turinetti and will be mainly devoted to photography (with a particular focus on the Publifoto Archive), the digital world and contemporary art. During the lockdown, work continued remotely and without interruption on the development project for the Turin museum, with the Parent Company’s Real Estate and Logistics Head Office Department and Studio De Lucchi.
The preliminary work also started on the transfer of the Gallerie d’Italia in Naples to the new venue in Via Toledo, designed by Studio De Lucchi, for which the announcement to the press was postponed due to the epidemic.

Half-yearly condensed consolidated Financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		30.06.2020	31.12.2019	Changes amount	Changes %
10.	Cash and cash equivalents	7,784	9,745	-1,961	-20.1
20.	Financial assets measured at fair value through profit or loss	60,838	49,414	11,424	23.1
	a) financial assets held for trading	*56,272*	*45,152*	*11,120*	*24.6*
	b) financial assets designated at fair value	*51*	*195*	*-144*	*-73.8*
	c) other financial assets mandatorily measured at fair value	*4,515*	*4,067*	*448*	*11.0*
30.	Financial assets measured at fair value through other comprehensive income	73,778	72,410	1,368	1.9
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	165,342	168,202	-2,860	-1.7
40.	Financial assets measured at amortised cost	497,653	467,815	29,838	6.4
	a) due from banks	*63,459*	*49,027*	*14,432*	*29.4*
	b) loans to customers	*434,194*	*418,788*	*15,406*	*3.7*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	735	612	123	20.1
50.	Hedging derivatives	4,210	3,029	1,181	39.0
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,565	1,569	996	63.5
70.	Investments in associates and companies subject to joint control	1,462	1,240	222	17.9
80.	Technical insurance reserves reassured with third parties	65	28	37	
90.	Property and equipment	8,663	8,878	-215	-2.4
100.	Intangible assets	8,394	9,211	-817	-8.9
	of which:				
	- goodwill	*4,182*	*4,055*	*127*	*3.1*
110.	Tax assets	15,805	15,467	338	2.2
	a) current	*2,139*	*1,716*	*423*	*24.7*
	b) deferred	*13,666*	*13,751*	*-85*	*-0.6*
120.	Non-current assets held for sale and discontinued operations	2,593	494	2,099	
130.	Other assets	8,761	7,988	773	9.7
Total assets		**858,648**	**816,102**	**42,546**	**5.2**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2020	31.12.2019	Changes amount	Changes %
10.	Financial liabilities measured at amortised cost	536,565	519,382	17,183	3.3
	a) due to banks	*108,606*	*103,324*	*5,282*	*5.1*
	b) due to customers	*349,842*	*331,181*	*18,661*	*5.6*
	c) securities issued	*78,117*	*84,877*	*-6,760*	*-8.0*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,779	826	953	
20.	Financial liabilities held for trading	55,132	45,226	9,906	21.9
30.	Financial liabilities designated at fair value	2,060	4	2,056	
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,860	75,935	-3,075	-4.0
40.	Hedging derivatives	12,625	9,288	3,337	35.9
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	776	527	249	47.2
60.	Tax liabilities	2,204	2,321	-117	-5.0
	a) current	*350*	*455*	*-105*	*-23.1*
	b) deferred	*1,854*	*1,866*	*-12*	*-0.6*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	2,381	41	2,340	
80.	Other liabilities	18,949	12,070	6,879	57.0
90.	Employee termination indemnities	1,073	1,134	-61	-5.4
100.	Allowances for risks and charges	3,491	3,997	-506	-12.7
	a) commitments and guarantees given	*517*	*482*	*35*	*7.3*
	b) post-employment benefits	*225*	*232*	*-7*	*-3.0*
	c) other allowances for risks and charges	*2,749*	*3,283*	*-534*	*-16.3*
110.	Technical reserves	89,950	89,136	814	0.9
120.	Valuation reserves	-1,441	-157	1,284	
125.	Valuation reserves pertaining to insurance companies	403	504	-101	-20.0
130.	Redeemable shares	-	-	-	
140.	Equity instruments	5,549	4,103	1,446	35.2
150.	Reserves	17,428	13,279	4,149	31.2
160.	Share premium reserve	25,078	25,075	3	0.0
170.	Share capital	9,086	9,086	-	-
180.	Treasury shares (-)	-87	-104	-17	-16.3
190.	Minority interests (+/-)	221	247	-26	-10.5
200.	Net income (loss) (+/-)	2,566	4,182	-1,616	-38.6
Total liabilities and shareholders' equity		**858,648**	**816,102**	**42,546**	**5.2**

Consolidated income statement

(millions of euro)

		30.06.2020	30.06.2019	Changes amount	Changes %
10.	Interest and similar income	4,747	5,141	-394	-7.7
	of which: interest income calculated using the effective interest rate method	*4,928*	*5,309*	*-381*	*-7.2*
20.	Interest and similar expense	-1,272	-1,661	-389	-23.4
30.	**Interest margin**	**3,475**	**3,480**	**-5**	**-0.1**
40.	Fee and commission income	4,507	4,605	-98	-2.1
50.	Fee and commission expense	-1,083	-1,011	72	7.1
60.	**Net fee and commission income**	**3,424**	**3,594**	**-170**	**-4.7**
70.	Dividend and similar income	60	81	-21	-25.9
80.	Profits (Losses) on trading	305	319	-14	-4.4
90.	Fair value adjustments in hedge accounting	-12	-39	-27	-69.2
100.	Profits (Losses) on disposal or repurchase of:	798	814	-16	-2.0
	a) financial assets measured at amortised cost	*-29*	*90*	*-119*	
	b) financial assets measured at fair value through other comprehensive income	*620*	*628*	*-8*	*-1.3*
	c) financial liabilities	*207*	*96*	*111*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	109	15	94	
	a) financial assets and liabilities designated at fair value	*141*	*-70*	*211*	
	b) other financial assets mandatorily measured at fair value	*-32*	*85*	*-117*	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,413	2,009	-596	-29.7
120.	**Net interest and other banking income**	**9,572**	**10,273**	**-701**	**-6.8**
130.	Net losses/recoveries for credit risks associated with:	-1,718	-1,005	713	70.9
	a) financial assets measured at amortised cost	*-1,697*	*-990*	*707*	*71.4*
	b) financial assets measured at fair value through other comprehensive income	*-21*	*-15*	*6*	*40.0*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-35	-4	31	
140.	Profits (Losses) on changes in contracts without derecognition	-8	-2	6	
150.	**Net income from banking activities**	**7,811**	**9,262**	**-1,451**	**-15.7**
160.	Net insurance premiums	4,461	4,763	-302	-6.3
170.	Other net insurance income (expense)	-5,077	-6,086	-1,009	-16.6
180.	**Net income from banking and insurance activities**	**7,195**	**7,939**	**-744**	**-9.4**
190.	Administrative expenses:	-4,685	-4,746	-61	-1.3
	a) personnel expenses	*-2,743*	*-2,830*	*-87*	*-3.1*
	b) other administrative expenses	*-1,942*	*-1,916*	*26*	*1.4*
200.	Net provisions for risks and charges	-101	-2	99	
	a) commitments and guarantees given	*-39*	*39*	*-78*	
	b) other net provisions	*-62*	*-41*	*21*	*51.2*
210.	Net adjustments to / recoveries on property and equipment	-256	-259	-3	-1.2
220.	Net adjustments to / recoveries on intangible assets	-365	-324	41	12.7
230.	Other operating expenses (income)	331	420	-89	-21.2
240.	**Operating expenses**	**-5,076**	**-4,911**	**165**	**3.4**
250.	Profits (Losses) on investments in associates and companies subject to joint control	-33	27	-60	
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	5	1	4	
290.	**Income (Loss) before tax from continuing operations**	**2,091**	**3,056**	**-965**	**-31.6**
300.	Taxes on income from continuing operations	-668	-821	-153	-18.6
310.	**Income (Loss) after tax from continuing operations**	**1,423**	**2,235**	**-812**	**-36.3**
320.	Income (Loss) after tax from discontinued operations	1,136	30	1,106	
330.	**Net income (loss)**	**2,559**	**2,265**	**294**	**13.0**
340.	Minority interests	7	1	6	
350.	**Parent Company's net income (loss)**	**2,566**	**2,266**	**300**	**13.2**
	Basic EPS - Euro	**0.15**	**0.13**		
	Diluted EPS - Euro	**0.15**	**0.13**		

Statement of consolidated comprehensive income

(millions of euro)

		30.06.2020	30.06.2019	Changes	
				amount	%
10.	**Net income (Loss)**	**2,559**	**2,265**	**294**	**13.0**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**-166**	**187**	**-353**	
20.	Equity instruments designated at fair value through other comprehensive income	-170	16	-186	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-2	-	2	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	-6	233	-239	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	12	-62	74	
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	**-1,224**	**541**	**-1,765**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	-149	46	-195	
120.	Cash flow hedges	7	-167	174	
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	-964	357	-1,321	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	-112	304	-416	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	-6	1	-7	
170.	**Total other comprehensive income (net of tax)**	**-1,390**	**728**	**-2,118**	
180.	**Total comprehensive income (captions 10 + 170)**	**1,169**	**2,993**	**-1,824**	**-60.9**
190.	**Total consolidated comprehensive income pertaining to minority interests**	**-12**	**-25**	**13**	**52.0**
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**1,181**	**3,018**	**-1,837**	**-60.9**

Changes in consolidated shareholders’ equity as at 30 June 2020

(millions of euro)

	30.06.2020												
	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	**-**	**-**	**-**	**4,150**	**-**	**-**	**-**	**-**	**-**	**-4,150**	**-**	**-**	**-**
Dividends and other allocations	**-**	**-**	**-**	**-13**	**-**	**-**	**-**	**-**	**-**	**-22**	**-35**	**-12**	**-23**
CHANGES IN THE PERIOD													
Changes in reserves	-	-	**3**	**-**	**104**	-	-	-	-	-	107	107	-
Operations on shareholders' equity	-	-											
Issue of new shares	-	-	-	-	-	-	-	-	17	-	17	17	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity instruments	-	-	-	-	-	-	-	1,446	-	-	1,446	1,446	-
Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-8	-	-	-108	-	-	-	-	-	-	-116	-125	9
Total comprehensive income for the period	-	-	-	-	-	-1,289	-101	-	-	2,559	1,169	1,181	-12
SHAREHOLDERS’ EQUITY AS AT 30.06.2020	**9,447**	**-**	**25,098**	**16,491**	**883**	**-1,540**	**403**	**5,549**	**-87**	**2,559**	**58,803**	**58,582**	**221**
- Group	**9,086**	**-**	**25,078**	**16,545**	**883**	**-1,441**	**403**	**5,549**	**-87**	**2,566**	**58,582**		
- minority interests	**361**	**-**	**20**	**-54**	**-**	**-99**	**-**	**-**	**-**	**-7**	**221**		

(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 30 June 2019

(millions of euro)

	30.06.2019												
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests
	ordinary shares	other shares		retained earnings	other								
AMOUNTS AS AT 31.12.2018	**9,473**	**-**	**24,789**	**12,471**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,431**	**54,024**	**407**
Changes in opening balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AMOUNTS AS AT 1.1.2019	**9,473**	**-**	**24,789**	**12,471**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,431**	**54,024**	**407**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**580**						**-580**	**-**	**-**	**-**
Dividends and other allocations										**-3,492**	**-3,492**	**-3,463**	**-29**
CHANGES IN THE PERIOD													
Changes in reserves			306	-270	44						80	80	-
Operations on shareholders' equity													
Issue of new shares									12		12	12	-
Purchase of treasury shares											-	-	-
Dividends											-	-	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-13		-1	-138							-152	-136	-16
Total comprehensive income for the period						415	313			2,265	2,993	3,018	-25
SHAREHOLDERS' EQUITY AS AT 30.06.2019	**9,460**	**-**	**25,094**	**12,643**	**622**	**-565**	**322**	**4,103**	**-72**	**2,265**	**53,872**	**53,535**	**337**
- Group	**9,086**	**-**	**25,074**	**12,608**	**622**	**-474**	**322**	**4,103**	**-72**	**2,266**	**53,535**		
- minority interests	**374**	**-**	**20**	**35**	**-**	**-91**	**-**	**-**	**-**	**-1**	**337**		

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

Consolidated statement of cash flows

(millions of euro)

	30.06.2020	30.06.2019
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**4,626**	**4,330**
Net income (loss) (+/-)	2,559	2,265
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	-694	439
Gains/losses on financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-183	-1,956
Gains/losses on hedging activities (-/+)	12	39
Gains/losses on hedging activities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	1,933	1,253
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	620	583
Net provisions for risks and charges and other costs/revenues (+/-)	101	2
Net insurance premiums to be collected (-)	-1	-
Other insurance revenues/charges to be collected (-/+)	1,943	2,531
Taxes, duties and tax credits to be paid/collected (+/-)	354	-42
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
Other adjustments (+/-)	-2,018	-784
2. Cash flow from / used in financial assets	**-47,944**	**-36,202**
Financial assets held for trading	-10,830	-9,827
Financial assets designated at fair value	145	14
Other financial assets mandatorily measured at fair value	-479	-204
Financial assets measured at fair value through other comprehensive income	-2,171	-4,688
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	355	-3,898
Financial assets measured at amortised cost	-32,612	-15,533
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	15	384
Other assets	-2,367	-2,450
3. Cash flow from / used in financial liabilities (*)	**39,482**	**32,114**
Financial liabilities measured at amortised cost	17,492	17,933
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	37
Financial liabilities held for trading	9,922	8,468
Financial liabilities designated at fair value	2,194	-71
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-201	-28
Other liabilities	9,123	5,775
Net cash flow from (used in) operating activities	**-3,836**	**242**
B. INVESTING ACTIVITIES		
1. Cash flow from	**1,007**	**9**
Sales of investments in associates and companies subject to joint control	24	-
Dividends collected on investments in associates and companies subject to joint control	8	9
Sales of property and equipment	20	-
Sales of intangible assets	10	-
Sales of subsidiaries and business branches	945	-
2. Cash flow used in	**-432**	**-480**
Purchases of investments in associates and companies subject to joint control	-17	-100
Purchases of property and equipment	-49	-104
Purchases of intangible assets	-41	-276
Purchases of subsidiaries and business branches	-325	-
Net cash flow from (used in) investing activities	**575**	**-471**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	17	12
Share capital increases	1,381	-101
Dividend distribution and other	-35	-3,492
Disposal/acquisition of minority interests in subsidiaries	-9	-14
Net cash flow from (used in) financing activities	**1,354**	**-3,595**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-1,907**	**-3,824**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	9,745	10,350
Net increase (decrease) in cash and cash equivalents	-1,907	-3,824
Cash and cash equivalents: foreign exchange effect	-54	12
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**7,784**	**6,538**

LEGEND: (+) from (–) used in

(*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to +39.5 billion euro (cash flow used) and comprise +21.2 billion euro in cash flows, +9.1 billion euro in fair value changes, +0.2 billion euro in changes due to the acquisition or loss of control upon subsidiaries or other companies and +9 billion euro in other changes.

Explanatory notes

Accounting policies

General preparation principles

The Half-yearly condensed consolidated financial statements as at 30 June 2020 have been prepared in compliance with the requirements of art. 154-ter of Legislative Decree 58 of 24 February 1998. Moreover, they have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission and in force as at 30 June 2020, as provided for by EU Regulation 1606 of 19 July 2002.
In particular, the Half-yearly condensed consolidated financial statements are prepared in compliance with IAS 34 requirements, which regulate interim financial reporting.

The accounting standards adopted in preparation of these Half-yearly condensed consolidated financial statements, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have remained unchanged 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 chapter "The first half of 2020", 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 and 2020, 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[14]. 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;
- Regulation 551/2020: the Regulation dated 21 April 2020 adopted several amendments to IFRS 3 *Business Combinations*, introduced with the IASB publication of 22 October 2018 "Definition of a Business (Amendments to IFRS 3)" in order to facilitate the practical application of the definition of the term "business". These clarifications do not entail any changes to the practices already followed by the Intesa Sanpaolo Group with regard to the definition of a business.

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 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.

[14] 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 IAS/IFRS. 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.

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 Half-yearly condensed consolidated financial statements, drawn up in euro as the functional currency, are prepared in condensed form as permitted by IAS 34, and contain the consolidated Balance sheet, the consolidated Income statement, the Statement of consolidated comprehensive income for the period, the Changes in consolidated shareholders’ equity, the consolidated Statement of cash flows and the explanatory notes. They are also complemented by information on significant events which occurred in the period, on the main risks and uncertainties to be faced in the remaining months of the year, as well as information on significant related party transactions.
With effect from the 2018 financial statements, following the Group’s decision to exercise the option of adopting the Deferral Approach, also provided for banking-led financial conglomerates, specific balance sheet and income statement captions have been added to the consolidated financial statement layouts established in Circular 262 to present the valuation of assets and liabilities pertaining to insurance companies and the related profit or loss effects measured in accordance with IAS 39.
The amounts indicated in the financial statements and explanatory notes are expressed in millions of euro, unless otherwise specified.

With regard to assets held for sale, as stated above in the chapter "The first half of 2020" of this Report, on 26 June 2020 Intesa Sanpaolo and Aleàtica S.A.U., a Spanish company specialised in infrastructure investments that is 100% owned by the Australian fund IFM Global Infrastructure Fund, reached an agreement regarding the sale of the entire equity investment held in Autostrade Lombarde (in which Intesa Sanpaolo holds a 55.8% interest) and its operating subsidiary Brebemi, the company that holds the concession to the Milan-Brescia motorway segment (A35). The transaction is expected to be completed by the end of 2020 and is subject to the usual authorisations from the competent authorities. As a result of the transaction described above, the assets and liabilities attributable to the two subsidiaries, controlled within the meaning given in IFRS 10 and consolidated line by line in the Group's consolidated financial statements, have been reclassified with effect from the Half-yearly Report at 30 June 2020 among assets and liabilities held for sale and discontinued operations in accordance with IFRS 5.
The assets held for sale also include a residual portion of the non-performing credit exposures arising from leasing activity and contemplated in the agreement with Prelios, for which the transfer has yet to be completed in view of the inability, relating to the restrictions imposed by the COVID-19, to proceed with the inspections required to allow the sale deeds to be prepared for the properties; according to the conditions agreed between the parties, the transfer of this portion of the portfolio will occur within the third month from the date on which the restrictions imposed by the current health emergency are lifted.
Assets held for sale also include the pledge lending business line, for which Intesa Sanpaolo reached an agreement for sale to ProntoPegno at the end of 2019, which was entered into on 13 July 2020.
The transfer of Intesa Sanpaolo's acquiring business line, previously included among discontinued operations, to Nexi was completed on 30 June. For detailed information, see the sections "The first half of 2020" and “Balance sheet aggregates” in the Notes to this Half-yearly Report.
Finally, with regard to the “high-risk” loans originating from the Venetian banks in compulsory administrative liquidation, as indicated above in the chapter "The first half of 2020" of this Report, on 13 June 2020 the final retrocession was performed for positions reclassified as “bad loans” and/or “unlikely-to-pay loans”, considering that the decree whereby the Ministry of the Economy and Finance formalised the "high risk" guarantee and Law Decree 99/2017 (the "Venetian Banks" Law Decree) establish that Intesa Sanpaolo’s right to retrocede the “high risk” loans must be exercised within three years of the original transfer of the Aggregate Set, a transaction that was closed on 26 June 2017. The retrocession applied to a total portfolio with a gross value of 201 million euro, for a retrocession price of 176 million euro. In the second quarter of 2020, on 18 April 2020, another retrocession event had occurred, involving a total portfolio with a gross value of 121 million euro, for a retrocession price of 103 million euro. Both retrocessions occurred at a price aligned with the net book value, which already incorporated the contractual mechanism for determining the retrocession consideration, according to which 50% of adjustments are borne by the Banks in compulsory administrative liquidation. Accordingly, at 30 June 2020 there are no longer any "high risk" loans reclassified to assets held for sale in accordance with IFRS 5.

The Half-yearly condensed consolidated financial statements as at 30 June 2020 are complemented by certification of the Managing Director – CEO and the Manager responsible for preparing the Company’s financial reports pursuant to Article 154-bis of the Consolidated Law on Finance and are subject to limited review by the Independent Auditors KPMG.

Scope of consolidation and consolidation methods

Scope of consolidation

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

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

The significant change in the consolidation scope compared to 31 December 2019 relates to the inclusion in the scope of line-by-line consolidation of RBM Assicurazione Salute, in relation to the finalisation of the acquisition of the majority shareholding of the company in the second quarter.
Solely in the interest of completeness, we also report the elimination from the scope of line-by-line consolidation of Trade Receivables Investment Vehicle S.a.r.l. and Cib Factor Financial Service LTD Under voluntary liquidation, which both ceased operations, and, with regard to entities under common control – thus without any impact at consolidated level – PBZ Nekretnine D.O.O., merged by absorption into PBZ Card D.O.O. within the PBZ Group, with effect from 1 January 2020.

Consolidation methods

The methods used for the consolidation of subsidiaries and for the consolidation 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 Half-yearly condensed consolidated financial statements as at 30 June 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 following table lists the subsidiaries included in the scope of consolidation as at 30 June 2020.

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	% votes available (b)
1	Argentea Gestioni S.c.p.a.(c) Capital 120,000 euro	Brescia	Brescia	1	Autostrade Lombarde	63.35	
2	Autostrade Lombarde S.p.a.(c) Capital 467,726,626 euro	Brescia	Brescia	1	Intesa Sanpaolo	55.78	
3	Banca 5 S.p.A. Capital 30,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
4	Banca Comerciala Eximbank S.A. Capital MDL 1,250,000,000	Chişinău	Chişinău	1	Intesa Sanpaolo	100.00	
5	Banca IMI S.p.A. Capital 962,464,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
6	Banca Imi Securities Corp Capital USD 44,500,000	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
7	Banca Intesa AD Beograd Capital RSD 21,315,900,000	Novi Beograd	Beograd	1	Intesa Sanpaolo Holding International	100.00	
8	Bank of Alexandria (d) Capital EGP 800,000,000	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
9	Banka Intesa Sanpaolo d.d (e)	Koper	Koper	1	Intesa Sanpaolo	48.13	
	Capital 22,173,218 euro				Privredna Banka Zagreb d.d.	51.00	
						99.13	
10	Cib Bank Ltd Capital HUF 50,000,000,003	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
11	CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
12	CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Eurizon Asset Management Slovakia Sprav. Spol. A.S.	100.00	
13	CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
14	CIB Rent Operative Leasing Ltd Capital HUF 5,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
15	Compagnia Italiana Finanziaria - CIF S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
16	Consorzio Studi e ricerche fiscali Gruppo Intesasanpaolo (i)	Roma	Roma	1	Fideuram - Intesa Sanpaolo Private Banking	7.50	
	Capital 258,228 euro				Eurizon Capital SGR	5.00	
					Intesa Sanpaolo Vita	7.50	
					Intesa Sanpaolo	72.50	
					Banca IMI	7.50	
						100.00	
17	Duomo Funding Plc (f)	Dublin	Dublin	2	Intesa Sanpaolo	-	
18	Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR	100.00	
19	Etoile Actualis S.a.r.l.(c) Capital 8,665 euro	Paris	Paris	1	Risanamento Europa	100.00	
20	Etoile François Premier S.a.r.l (c) Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
21	Eurizon Asset Management Slovakia Sprav. Spol. A.S. Capital 4,093,560 euro	Bratislava	Bratislava	1	Eurizon Capital SGR	100.00	
22	Eurizon Capital (HK) limited (i) Capital HKD 58,000,000	Hong Kong	West Kowloon	1	Eurizon Capital SGR	100.00	
23	Eurizon Capital Real Asset SGR S.p.a.(i)	Milano	Milano	1	Eurizon Capital SGR	51.00	
	Capital 2,500,000 euro				Intesa Sanpaolo Vita	49.00	
						100.00	
24	Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
25	Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
26	Eurizon Slj Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	% votes available (b)
27	Exelia S.r.l.(i) Capital RON 8,252,600	Brasov	Brasov	1	Intesa Sanpaolo Holding International	100.00	
28	Exetra S.p.a.(i) Capital 158,000 euro	Milano	Milano	1	Intesa Sanpaolo	85.00	
29	Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
30	Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
31	Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
32	Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
33	Fideuram Vita S.p.A. Capital 357,446,836 euro	Roma	Roma	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking	80.01 19.99 100.00	
34	Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
35	IMI Capital Markets USA Corp. Capital USD 5,000	New York	New York	1	IMI Investments	100.00	
36	IMI Finance Luxemburg S.A. (i) Capital 100,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International S.A.	100.00	
37	IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
38	IMMIT - Immobili Italiani S.r.l. (i) Capital 100,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
39	Immobiliare Cascina Rubina S.r.l.(c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
40	IN.FRA - Investire nelle Infrastrutture S.r.l. Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
41	Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
42	Intesa Invest AD Beograd (i) Capital RSD 236,975,800	Beograd	Beograd	1	Banca Intesa AD Beograd	100.00	
43	Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
44	Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa AD Beograd	100.00	
45	Intesa Sanpaolo Agents4you S.p.A. (i) Capital 120,000 euro	Vicenza	Torino	1	Intesa Sanpaolo	100.00	
46	Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
47	Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
48	Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
49	Intesa Sanpaolo Bank Luxembourg S.A. Capital 1,389,370,555 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
50	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
51	Intesa Sanpaolo Brasil S.A. - Banco Multiplo Capital BRL 325,019,563	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.90 0.10 100.00	
52	Intesa Sanpaolo Casa S.p.a.(i) Capital 1,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	% votes available (b)
53	Intesa Sanpaolo Expo Institutional Contact S.r.l (i)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	50,000 euro						
54	Intesa Sanpaolo Formazione società consortile per azioni (i)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 174.600 euro						
55	Intesa Sanpaolo Forvalue S.p.a.(i)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 2,000,000 euro						
56	Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC)	New York	Wilmington	1	Intesa Sanpaolo	100.00	
	Capital USD 25,000						
57	Intesa Sanpaolo Harbourmaster III S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 5,500,000 euro						
58	Intesa Sanpaolo Highline S.r.l. (i)	Torino	Torino	1	Intesa Sanpaolo	100.00	
	Capital 500,000 euro						
59	Intesa Sanpaolo Holding International S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
	Capital 2,157,957,270 euro						
60	Intesa Sanpaolo House Immobiliere S.A. (i)	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 1,000,000 euro						
61	Intesa Sanpaolo Innovation Center S.c.p.a	Vicenza	Torino	1	Intesa Sanpaolo	99.98	
	Capital 9,254,940 euro				Banca Imi	0.01	
					Intesa Sanpaolo Vita	0.01	
						100.00	
62	Intesa Sanpaolo Life Designed activity company (formerly Intesa Sanpaolo Life Ltd)	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
	Capital 625,000 euro						
63	Intesa Sanpaolo International Value Services LTD (i)	Zagreb	Zagreb		Intesa Sanpaolo Holding International	100.00	
	Capital 100,000 euro						
64	Intesa Sanpaolo Private Argentina S.A. (i)	Buenos Aires	Buenos Aires	1	Fideuram - Intesa Sanpaolo Private Banking	4.97	
	Capital ARS 13,404,506				Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	95.03	
						100.00	
65	Intesa Sanpaolo Private Bank (Suisse) Morval S.A. (g)	Geneva	Geneva	1	Fideuram - Intesa Sanpaolo Private Banking	96.91	
	Capital CHF 22,217,000						
66	Intesa Sanpaolo Private Banking S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 105,497,424 euro						
67	Intesa Sanpaolo Provis S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 6,225,000 euro						
68	Intesa Sanpaolo RE.O.CO. S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 13,000,000 euro						
69	Intesa Sanpaolo Romania S.A. Commercial Bank	Bucharest	Bucharest	1	Intesa Sanpaolo	99.73	
	Capital RON 1,156,639,410				Intesa Sanpaolo Holding International	0.27	
						100.00	
70	Intesa Sanpaolo Servicos e emprendimentos LTDA EM Liquidacao (i)	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo	100.00	
	Capital BRL 3,283,320						
71	Intesa Sanpaolo Servitia S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 1,500,000 euro						
72	Intesa Sanpaolo Smart Care S.r.l.	Torino	Torino	1	Intesa Sanpaolo	51.01	
	Capital 1,633,000 euro				Intesa Sanpaolo Vita	48.99	
						100.00	
73	Intesa Sanpaolo Vita S.p.A.	Milano	Torino	1	Intesa Sanpaolo	99.99	
	Capital 320,422,509 euro						
74	Intesa Sec S.r.l.(i)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 10,000 euro						
75	ISP CB Ipotecario S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 120,000 euro						
76	ISP CB Pubbico S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 120,000 euro						
77	ISP OBG S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 42,038 euro						
78	Joint-Stock Company Banca Intesa	Moscow	Moscow	1	Intesa Sanpaolo Holding International	53.02	
	Capital RUB 10,820,180,800				Intesa Sanpaolo	46.98	
						100.00	

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	% votes available (b)
79	Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	
80	Milano Santa Giulia S.p.A. (c) Capital 139,041 euro	Milano	Milano	1	Risanamento	100.00	
81	Morval Bank & Trust Cayman Ltd Capital 7,850,000 euro	George Town	George Town	1	Morval Vonwiller Asset Management Co Ltd	100.00	
82	Morval Gestion S.A.M. (i) Capital 500,000 euro	Monaco	Monaco	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.00	
83	Morval SIM S.p.a. (i) Capital 2,768,000 euro	Torino	Torino	1	Fideuram - Intesa Sanpaolo Private Banking Spa	100.00	
84	Morval Vonwiller Advisors S.A. (i) Capital UYU 495,000	Montevideo	Montevideo	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.00	
85	Morval Vonwiller Asset Management Co Ltd Capital USD 2,400,000	Tortola	Tortola	1	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	100.00	
86	MSG Comparto Quarto S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
87	MSG Comparto Secondo S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
88	MSG Comparto Terzo S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
89	Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo Innovation Center	100.00	
90	Neva S.G.R S.p.A. (formerly Imi Fondi Chiusi S.p.a.) (i) Capital 2,000,000 euro	Bologna	Torino	1	Intesa Sanpaolo Innovation Center	100.00	
91	OOO Intesa Realty Russia (i) Capital RUB 10,000	Moscow	Moscow	1	Intesa Sanpaolo	100.00	
92	PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
93	PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Eurizon Asset Management Slovakia Sprav. Spol. A.S.	100.00	
94	PBZ Leasing d.o.o. Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
95	PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
96	Pravex Bank Public Joint-Stock Company Capital UAH 979,089,724	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
97	Private Equity International S.A. (h) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	94.39	100.00
98	Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
99	Qingdao Yicai Fund Distribution Co. Ltd. Capital CNY 371,000,000	Qingdao	Qingdao	1	Intesa Sanpaolo	100.00	
100	RBM Assicurazione Salute S.P.A. Capital 160,000,000 euro	Preganziol	Preganziol	1	Intesa Sanpaolo Vita	50.00	
101	Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	
102	Ri. Rental S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
103	Risanamento Europa S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
104	Risanamento S.p.A. (c) Capital 197,951,784 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
105	Romulus Funding Corporation (f)	New York	New York	2	Intesa Sanpaolo	-	
106	Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	% votes available (b)
107	Società di Progetto Autostrada diretta Brescia Milano S.p.A. (c)	Brescia	Brescia	1	Intesa Sanpaolo	0.05	
	Capital 51,414,227 euro				Autostrade Lombarde	81.69	
						81.74	
108	Società Italiana di Revisione e Fiduciaria – S.I.RE.F. S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 2,600,000 euro						
109	Southern Group Limited (i)	George Town	George Town	1	Intesa Sanpaolo (Suisse) Morval S.A.	100.00	
	Capital USD 50,000						
110	SRM Studi e Ricerche per il Mezzogiorno (i)	Napoli	Napoli	1	Intesa Sanpaolo	60.00	25.00
	Capital 90,000 euro						
111	Sviluppo Comparto 3 S.r.l.(c)	Milano	Milano	1	Milano Santa Giulia	100.00	
	Capital 50,000 euro						
112	Vseobecna Uverova Banka a.s.	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
	Capital 430,819,064 euro						
113	VUB Leasing a.s.	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	
	Capital 46,600,000 euro						

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

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

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

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

(e) Minority shareholders are subject to a legal commitment to purchase the remaining 0.8% of share capital.

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

(g) Please note that there are put and call option agreements on 3.09% of share capital held by minority shareholders.

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

(i) Company consolidated using the equity method given its limited materiality.

Subsequent events

As mentioned above in "The first half of 2020", the merger by incorporation of Banca IMI S.p.A. into the Parent Company Intesa Sanpaolo S.p.A., closed in accordance with the Shareholders' Meeting and Board of Directors' resolutions passed by the two companies and the provisions of the deed of merger dated 19 June 2020, entered into effect on 20 July 2020. The integration of Banca IMI into the Parent Company, entailing the creation of the new IMI Corporate & Investment Banking Division, is part of Intesa Sanpaolo's 2018-21 Business Plan, as the key driver of its implementation.
The new Division maintains a clear reference to Banca IMI, including at the level of its brand, to emphasise that the integration represents the continuation of a process of excellence that began several years ago and has now been further reinforced in order to be optimally positioned to face the challenges that only organisations focused on the future, but with a wealth of solid history behind them, will be capable of overcoming.
The creation of the new IMI Corporate & Investment Banking Division will allow the Intesa Sanpaolo Group to serve its corporate, public administration and financial institution customers even more effectively by drawing on a unique business model, specialist expertise and top-tier professionalism, in addition to a brand that represents Italian excellence in capital markets and investment banking and tells a story of essential values and lasting successes. This is in addition to the further reinforcement of an international structure consolidated over the years, based on a network of corporate hubs and branches located in 25 countries worldwide, capable of supporting and assisting customers in their activities outside Italy's borders.

The acceptance period for the Voluntary Public Purchase and Exchange Offer promoted by Intesa Sanpaolo for a maximum of 1,144,285,146 ordinary shares of Unione di Banche Italiane S.p.A., representing all subscribed and paid-in share capital, ended on 30 July 2020. The public takeover bid for UBI Shares reserved for "qualified institutional buyers" launched by Intesa Sanpaolo in the United States also ended on that same date. See the specific paragraph of the chapter "The first half of 2020" for more detailed information.

Economic results

General aspects

A condensed reclassified consolidated income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary and material, also to account for changes in the scope of consolidation.
The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.
In particular, the restatement on a like-for-like basis of the comparative income statement figures with effect from the first quarter of 2019 involved:

- the line-by-line income statement results of RBM Assicurazione Salute, which entered the line-by-line scope of consolidation due to the finalisation of the acquisition of the majority shareholding of the company in the second quarter of 2020;
- the inclusion in the caption Income (Loss) from discontinued operations of the income components attributable to the business line consisting of the acquiring activities transferred to Nexi at the end of the first half of 2020;
- the inclusion among Operating costs of effect of the fees to be paid to Prelios under the servicing agreement for 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.

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 Risanamento and its subsidiaries, reallocated to Other operating income (expenses), in view of the fact that the entities concerned are not subject to management and coordination within the framework of the Group and operate in sectors entirely distinct from banking and finance;
- the recoveries of expenses, taxes and duties have been subtracted from Other administrative expenses, instead of being included among Other income;
- profits and losses on disposal or repurchase of financial assets measured at amortised cost (loans and debt securities), which have been allocated to Net adjustments to loans;
- Net adjustments/recoveries for credit risk associated with financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, the effects on the income statement of the changes in contracts and the net provisions for risks and charges for credit risk relating to commitments and guarantees given, attributed to the single item Net adjustments to loans;
- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which was included among Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows, in keeping with the treatment of the time value of financial assets measured at amortised cost;
- Net losses for credit risk associated with financial assets measured at amortised cost other than loans and net impairment losses on equity investments, as well as property and equipment and intangible assets (including property and other assets, 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 other than those relating to commitments and guarantees – 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;
- Charges (net of tax) for integration and exit incentives, which are reclassified from Personnel expenses, Other administrative expenses and 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)

	30.06.2020	30.06.2019	Changes	
			amount	%
Net interest income	3,497	3,517	-20	-0.6
Net fee and commission income	3,588	3,830	-242	-6.3
Income from insurance business	736	627	109	17.4
Profits (Losses) on financial assets and liabilities designated at fair value	1,257	1,092	165	15.1
Other operating income (expenses)	-3	9	-12	
Operating income	**9,075**	**9,075**	**-**	**-**
Personnel expenses	-2,736	-2,807	-71	-2.5
Other administrative expenses	-1,136	-1,212	-76	-6.3
Adjustments to property, equipment and intangible assets	-531	-512	19	3.7
Operating costs	**-4,403**	**-4,531**	**-128**	**-2.8**
Operating margin	**4,672**	**4,544**	**128**	**2.8**
Net adjustments to loans	-1,801	-923	878	95.1
Other net provisions and net impairment losses on other assets	-157	-67	90	
Other income (expenses)	-18	7	-25	
Income (Loss) from discontinued operations	1,163	41	1,122	
Gross income (loss)	**3,859**	**3,602**	**257**	**7.1**
Taxes on income	-874	-981	-107	-10.9
Charges (net of tax) for integration and exit incentives	-50	-52	-2	-3.8
Effect of purchase price allocation (net of tax)	-50	-68	-18	-26.5
Levies and other charges concerning the banking industry (net of tax)	-277	-242	35	14.5
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-42	7	-49	
Net income (loss)	**2,566**	**2,266**	**300**	**13.2**

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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,750	1,747	1,747	1,741	1,761	1,756
Net fee and commission income	1,744	1,844	2,166	1,966	1,965	1,865
Income from insurance business	367	369	320	321	304	323
Profits (Losses) on financial assets and liabilities designated at fair value	263	994	356	480	634	458
Other operating income (expenses)	12	-15	-10	5	10	-1
Operating income	**4,136**	**4,939**	**4,579**	**4,513**	**4,674**	**4,401**
Personnel expenses	-1,380	-1,356	-1,519	-1,422	-1,419	-1,388
Other administrative expenses	-583	-553	-752	-637	-625	-587
Adjustments to property, equipment and intangible assets	-267	-264	-285	-261	-252	-260
Operating costs	**-2,230**	**-2,173**	**-2,556**	**-2,320**	**-2,296**	**-2,235**
Operating margin	**1,906**	**2,766**	**2,023**	**2,193**	**2,378**	**2,166**
Net adjustments to loans	-1,398	-403	-693	-473	-554	-369
Other net provisions and net impairment losses on other assets	262	-419	-168	-19	-37	-30
Other income (expenses)	-21	3	50	-2	1	6
Income (Loss) from discontinued operations	1,134	29	25	22	22	19
Gross income (loss)	**1,883**	**1,976**	**1,237**	**1,721**	**1,810**	**1,792**
Taxes on income	-313	-561	-312	-532	-446	-535
Charges (net of tax) for integration and exit incentives	-35	-15	-27	-27	-30	-22
Effect of purchase price allocation (net of tax)	-24	-26	-12	-37	-28	-40
Levies and other charges concerning the banking industry (net of tax)	-86	-191	-22	-96	-96	-146
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Minority interests	-10	-32	8	15	6	1
Net income (loss)	**1,415**	**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

Despite the recession triggered by the pandemic, the Intesa Sanpaolo Group's operating income showed considerable resilience, remaining at essentially the same levels as in the first half of 2019, owing to the favourable performance of financial assets and liabilities designated at fair value and insurance business, which offset the decline in net fee and commission income related to the lockdown.

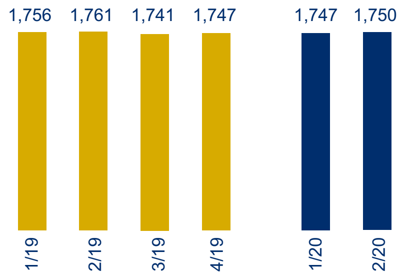
Net interest income

(millions of euro)

	30.06.2020	30.06.2019	Changes	
			amount	%
Relations with customers	3,616	3,735	-119	-3.2
Securities issued	-860	-1,064	-204	-19.2
Customer dealing	**2,756**	**2,671**	**85**	**3.2**
Instruments measured at amortised cost which do not constitute loans	198	172	26	15.1
Other financial assets and liabilities designated at fair value through profit or loss	36	57	-21	-36.8
Other financial assets designated at fair value through other comprehensive income	391	436	-45	-10.3
Financial assets and liabilities	**625**	**665**	**-40**	**-6.0**
Relations with banks	**2**	**32**	**-30**	**-93.8**
Differentials on hedging derivatives	**-360**	**-340**	**20**	**5.9**
Non-performing assets	**377**	**453**	**-76**	**-16.8**
Other net interest income	**97**	**36**	**61**	
Net interest income	**3,497**	**3,517**	**-20**	**-0.6**

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

Quarterly development
Net interest income
(millions of euro)



In the first half of 2020, net interest income remained essentially stable, amounting to 3,497 million euro (-0.6% 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 reduction of new NPLs flows and the more limited contribution of hedging of core deposits, included in differentials on hedging derivatives. In contrast, customer dealing amounted to 2,756 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 625 million euro declined by 6%. Net interest income on relations with banks fell to 2 million euro from 32 million euro in the first six months of 2019, driven by the decline in amounts due from banks.

(millions of euro)

	2020		Changes	
	Second quarter	First quarter	amount	%
Relations with customers	1,785	1,831	-46	-2.5
Securities issued	-405	-455	-50	-11.0
Customer dealing	**1,380**	**1,376**	**4**	**0.3**
Instruments measured at amortised cost which do not constitute loans	111	87	24	27.6
Other financial assets and liabilities designated at fair value through profit or loss	20	16	4	25.0
Other financial assets designated at fair value through other comprehensive income	192	199	-7	-3.5
Financial assets and liabilities	**323**	**302**	**21**	**7.0**
Relations with banks	**-3**	**5**	-8	
Differentials on hedging derivatives	**-182**	**-178**	4	2.2
Non-performing assets	**187**	**190**	-3	-1.6
Other net interest income	**45**	**52**	-7	-13.5
Net interest income	**1,750**	**1,747**	**3**	**0.2**

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

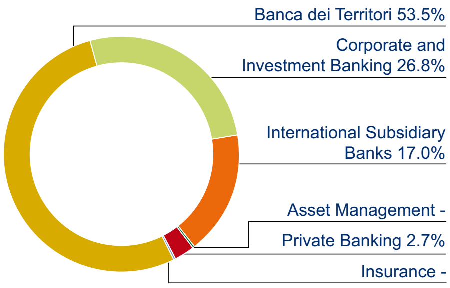
The net interest income flow recorded in the second quarter of 2020 was up slightly on the first quarter due to the increased volume of loans to customers and was in line with the average values recorded in the quarters of 2019.

(millions of euro)

	30.06.2020	30.06.2019	Changes	
			amount	%
Banca dei Territori	2,060	2,063	-3	-0.1
Corporate and Investment Banking	1,031	913	118	12.9
International Subsidiary Banks	653	679	-26	-3.8
Private Banking	102	89	13	14.6
Asset Management	-	-	-	-
Insurance	-	-	-	-
Total business areas	**3,846**	**3,744**	**102**	**2.7**
Corporate Centre	-349	-227	122	53.7
Intesa Sanpaolo Group	**3,497**	**3,517**	**-20**	**-0.6**

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 53.5% of operating business area results, recorded net interest income of 2,060 million euro, a level similar to those of the first half of 2019. The net interest income of the Corporate and Investment Banking Division recorded an increase (+12.9%, or +118 million euro) primarily attributable to the greater contribution from loans to customers. By contrast, net interest income decreased for the International Subsidiary Banks (-3.8%, or -26 million euro), primarily due to the subsidiaries operating in Slovakia and Croatia. The Private Banking Division, which in relative terms has a lesser impact on the consolidated accounts, increased its contribution to net interest income by 13 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.

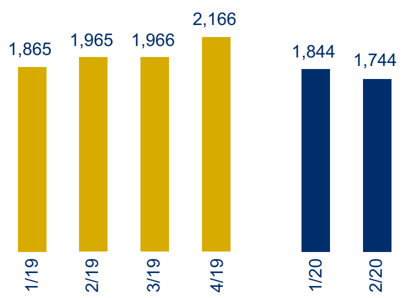
Net fee and commission income

(millions of euro)

	30.06.2020			30.06.2019			Changes	
	Income	Expense	Net	Income	Expense	Net	amount	%
Guarantees given / received	179	-80	99	170	-59	111	-12	-10.8
Collection and payment services	290	-73	217	353	-106	247	-30	-12.1
Current accounts	588	-	588	614	-	614	-26	-4.2
Credit and debit cards	274	-143	131	302	-148	154	-23	-14.9
Commercial banking activities	**1,331**	**-296**	**1,035**	**1,439**	**-313**	**1,126**	**-91**	**-8.1**
Dealing and placement of securities	483	-130	353	466	-91	375	-22	-5.9
Currency dealing	7	-1	6	7	-2	5	1	20.0
Portfolio management	1,440	-374	1,066	1,464	-361	1,103	-37	-3.4
Distribution of insurance products	677	-	677	687	-	687	-10	-1.5
Other	142	-30	112	151	-24	127	-15	-11.8
Management, dealing and consultancy activities	**2,749**	**-535**	**2,214**	**2,775**	**-478**	**2,297**	**-83**	**-3.6**
Other fee and commission	**451**	**-112**	**339**	**499**	**-92**	**407**	**-68**	**-16.7**
Total	**4,531**	**-943**	**3,588**	**4,713**	**-883**	**3,830**	**-242**	**-6.3**

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

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



Net fee and commission income for the first six months of 2020, which makes up 40% of operating income, came to 3,588 million euro, down by 6.3% (-242 million euro) compared to the first half of 2019 due to the cessation of most economic activities and the social distancing measures imposed in order to manage the COVID-19 emergency in the final four months of the half-year, in addition to the severe bear financial markets at the apex of the pandemic. These phenomena were reflected in a decline in fee and commission income both on commercial banking business (-8.1%, or -91 million euro), with sharper decreases in collection and payment services, current accounts and debit and credit card services, and on management, dealing and financial consultancy business (-3.6%, or -83 million euro); in particular, there was a decrease in the contribution relating to individual and collective portfolio management schemes (-3.4%) and securities dealing and placement (-5.9%). Finally, other fee and commission income also declined (-16.7%, or -68 million euro) due to the decrease in revenues on factoring transactions and other transactions.

(millions of euro)

	2020		Changes	
	Second quarter	First quarter	amount	%
Guarantees given / received	49	50	-1	-2.0
Collection and payment services	103	114	-11	-9.6
Current accounts	295	293	2	0.7
Credit and debit cards	68	63	5	7.9
Commercial banking activities	**515**	**520**	**-5**	**-1.0**
Dealing and placement of securities	168	185	-17	-9.2
Currency dealing	3	3	-	-
Portfolio management	516	550	-34	-6.2
Distribution of insurance products	333	344	-11	-3.2
Other	50	62	-12	-19.4
Management, dealing and consultancy activities	**1,070**	**1,144**	**-74**	**-6.5**
Other net fee and commission income	**159**	**180**	**-21**	**-11.7**
Net fee and commission income	**1,744**	**1,844**	**-100**	**-5.4**

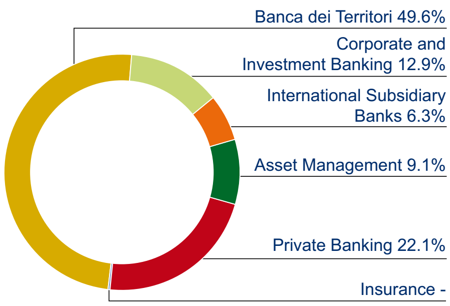
Figures restated, where necessary and material, considering the changes in the scope of consolidation.

Due to the full impact of the pandemic containment measures, which were reflected on the business, fee and commission income in the second quarter of 2020 was significantly lower than in the first quarter of 2020 and the quarters of 2019. However, fee and commission flows recovered considerably at the end of the lockdown, restoring the values for June to pre-pandemic crisis levels.

	30.06.2020	30.06.2019	Changes	
			amount	%
Banca dei Territori	1,878	2,050	-172	-8.4
Corporate and Investment Banking	488	456	32	7.0
International Subsidiary Banks	239	264	-25	-9.5
Private Banking	840	843	-3	-0.4
Asset Management	343	342	1	0.3
Insurance	1	-	1	-
Total business areas	**3,789**	**3,955**	**-166**	**-4.2**
Corporate Centre	-201	-125	76	60.8
Intesa Sanpaolo Group	**3,588**	**3,830**	**-242**	**-6.3**

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

Business areas
Net fee and commission income



With regard to business areas, the Banca dei Territori Division, which accounts for approximately half of the fee and commission income of the business units, recorded a decrease (-8.4%, or -172 million euro) in fee and commission income, affected by the abrupt slowdown following the lockdown aimed at containing the COVID-19 pandemic, involving both that relating to the assets under management segment, specifically subscription fees, and assets under administration, due to the more modest distribution of third-party certificates and bonds, and that arising from the commercial banking segment. Corporate and Investment Banking recorded growth (+7%, or +32 million euro), due to the performance of the investment banking segment. Asset Management and Private Banking fees and commissions remained essentially in line with those recorded in the first six months of 2019. By contrast, International Subsidiary Banks recorded a decline (-9.5%, or -25 million euro) essentially due to the subsidiary operating in Croatia. 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.

In application of IFRS 15, which requires a breakdown of revenues from contracts with customers, a breakdown of fee and commission income and expense by business area is provided below.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (a)	Total 30.06.2020	Total 30.06.2019	Changes	
										amount	%
Guarantees given	36	122	20	1	-	-	-	179	170	9	5.3
Collection and payment services	162	43	77	4	-	-	4	290	353	-63	-17.8
Current accounts	510	14	60	4	-	-	-	588	614	-26	-4.2
Credit and debit cards	164	1	90	4	-	-	15	274	302	-28	-9.3
Commercial banking activities	**872**	**180**	**247**	**13**	**-**	**-**	**19**	**1,331**	**1,439**	**-108**	**-7.5**
Dealing and placement of securities	506	194	11	113	118	-	-459	483	466	17	3.6
Currency dealing	3	-	2	2	-	-	-	7	7	-	-
Portfolio management	57	5	8	728	760	-	-118	1,440	1,464	-24	-1.6
Distribution of insurance products	374	-	12	291	-	1	-1	677	687	-10	-1.5
Other	27	25	6	80	-	-	4	142	151	-9	-6.0
Management, dealing and consultancy activities	**967**	**224**	**39**	**1,214**	**878**	**1**	**-574**	**2,749**	**2,775**	**-26**	**-0.9**
Other net fee and commission income	**148**	**166**	**35**	**11**	**57**	**-**	**34**	**451**	**499**	**-48**	**-9.6**
Fee and commission income	**1,987**	**570**	**321**	**1,238**	**935**	**1**	**-521**	**4,531**	**4,713**	**-182**	**-3.9**
Fee and commission expense	**-109**	**-82**	**-82**	**-398**	**-592**	**-**	**320**	**-943**	**-883**	**60**	**6.8**
Net fee and commission income	**1,878**	**488**	**239**	**840**	**343**	**1**	**-201**	**3,588**	**3,830**	**-242**	**-6.3**

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

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

Income from insurance business

(millions of euro)

Captions (a)	30.06.2020			30.06.2019			Changes	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**97**	**223**	**320**	**73**	**128**	**201**	**119**	**59.2**
Net insurance premiums (b)	4,128	498	4,626	4,522	452	4,974	-348	-7.0
Net charges for insurance claims and surrenders (c)	-3,041	-181	-3,222	-3,482	-232	-3,714	-492	-13.2
Net charges for changes in technical reserves (d)	-1,306	-1	-1,307	-1,820	-1	-1,821	-514	-28.2
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	382	-	382	929	-	929	-547	-58.9
Net fees on investment contracts (f)	155	-	155	156	-	156	-1	-0.6
Commission expenses on insurance contracts (g)	-234	-74	-308	-239	-77	-316	-8	-2.5
Other technical income and expense (h)	13	-19	-6	7	-14	-7	-1	-14.3
Net investment result	**352**	**4**	**356**	**395**	**3**	**398**	**-42**	**-10.6**
Operating income from investments	-1,520	4	-1,516	6,249	3	6,252	-7,768	
Net interest income	*820*	*1*	*821*	*871*	*2*	*873*	*-52*	*-6.0*
Dividends	*125*	*2*	*127*	*139*	*2*	*141*	*-14*	*-9.9*
Gains/losses on disposal	*-665*	*1*	*-664*	*786*	*-1*	*785*	*-1,449*	
Valuation gains/losses	*-1,759*	-	*-1,759*	*4,490*	-	*4,490*	*-6,249*	
Portfolio management fees paid (i)	*-41*	-	*-41*	*-37*	-	*-37*	*4*	*10.8*
Gains (losses) on investments pertaining to insured parties	1,872	-	1,872	-5,854	-	-5,854	7,726	
Insurance products (j)	*-432*	-	*-432*	*-974*	-	*-974*	*-542*	*-55.6*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*61*	-	*61*	*20*	-	*20*	*41*	
Investment products (l)	*2,243*	-	*2,243*	*-4,900*	-	*-4,900*	*7,143*	
Income from insurance business gross of consolidation effects	**449**	**227**	**676**	**468**	**131**	**599**	**77**	**12.9**
Consolidation effects	60	-	60	28	-	28	32	
Income from insurance business	**509**	**227**	**736**	**496**	**131**	**627**	**109**	**17.4**

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.

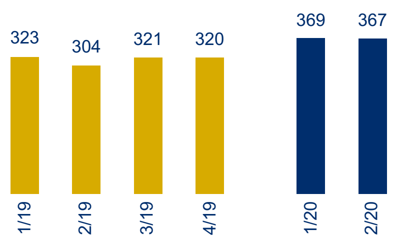
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

(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)



Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, also includes the results of RBM Assicurazione Salute, following the finalisation of the acquisition of the majority shareholding of the company in May 2020. In the first half of 2020 this result amounted to 736 million euro, an increase of 17.4% on the like-for-like figure for the first six months of 2019. 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 the life business and, to an even more significant extent, of the non-life businesses, inclusive of the health segment.

(millions of euro)

Captions (a)	2020		Changes	
	Second quarter	First quarter	amount	%
Technical margin	**142**	**178**	**-36**	**-20.2**
Net insurance premiums (b)	2,028	2,598	-570	-21.9
Net charges for insurance claims and surrenders (c)	-1,440	-1,782	-342	-19.2
Net charges for changes in technical reserves (d)	-975	-332	643	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	603	-221	824	
Net fees on investment contracts (f)	67	88	-21	-23.9
Commission expenses on insurance contracts (g)	-138	-170	-32	-18.8
Other technical income and expense (h)	-3	-3	-	-
Net investment result	**191**	**165**	**26**	**15.8**
Operating income from investments	5,385	-6,901	12,286	
Net interest income	*418*	*403*	*15*	*3.7*
Dividends	*73*	*54*	*19*	*35.2*
Gains/losses on disposal	*-176*	*-488*	*-312*	*-63.9*
Valuation gains/losses	*5,090*	*-6,849*	*11,939*	
Portfolio management fees paid (i)	*-20*	*-21*	*-1*	*-4.8*
Gains (losses) on investments pertaining to insured parties	-5,194	7,066	-12,260	
Insurance products (j)	*-676*	*244*	*-920*	
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*43*	*18*	*25*	
Investment products (l)	*-4,561*	*6,804*	*-11,365*	
Income from insurance business gross of consolidation effects	**333**	**343**	**-10**	**-2.9**
Consolidation effects	34	26	8	30.8
Income from insurance business	**367**	**369**	**-2**	**-0.5**

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

For notes, see the previous table.

In the second quarter of 2020, income from insurance business, including both the life and non-life businesses, was in line with the previous quarter and higher than the values for the quarters of 2019. However, the composition of the results for the two quarters of the current year differed: the growth of the net investment result in the second quarter offset the decline in the technical margin attributable to the reduction in net premiums and the decrease in technical reserves.

(millions of euro)

Business	30.06.2020				30.06.2019
	Periodic premiums	Single premiums	Total	*of which new business*	
Life insurance business	**127**	**4,002**	**4,129**	**4,002**	**4,522**
Premiums issued on traditional products	64	3,443	3,507	*3,443*	3,893
Premiums issued on unit-linked products	59	235	294	*235*	307
Premiums issued on capitalisation products	-	-	-	-	-
Premiums issued on pension funds	4	324	328	*324*	322
Non-life insurance business	**460**	**129**	**589**	225	**539**
Premiums issued	471	134	605	*357*	613
Change in premium reserves	-11	-5	-16	*-132*	-74
Premiums ceded to reinsurers	**-81**	**-11**	**-92**	-45	**-87**
Net premiums from insurance products	**506**	**4,120**	**4,626**	***4,182***	**4,974**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	41	2,767	2,808	*2,770*	3,434
Total business from investment contracts	**41**	**2,767**	**2,808**	***2,770***	**3,434**
Total business	**547**	**6,887**	**7,434**	***6,952***	**8,408**

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

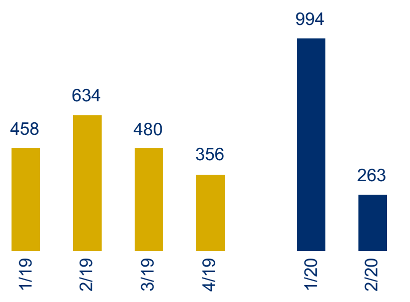
Business in the insurance segment of 7.4 billion euro fell short of the 8.4 billion euro recorded in the same period in 2019. The decline was attributable to both the performance of class III policies of a primarily financial nature, which fell to 2.8 billion euro from 3.4 billion euro in the first half of 2019, and the decline in traditional life business policies, which amounted to 3.5 billion euro (3.9 billion euro in the first six months of 2019). Positive factors included the growth of the non-life business, with new business in the first six months of 2020 reaching 589 million euro, and a slight increase in pension fund business.
New business was nearly 7 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

	30.06.2020	30.06.2019	Changes	
			amount	%
Interest rates	331	81	250	
Equity instruments	22	205	-183	-89.3
Currencies	55	72	-17	-23.6
Structured credit products	-26	23	-49	
Credit derivatives	241	-18	259	
Commodity derivatives	14	4	10	
Income from operations on assets designated at fair value through profit or loss	**637**	**367**	**270**	**73.6**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	620	725	-105	-14.5
Profits (Losses) on financial assets and liabilities designated at fair value	**1,257**	**1,092**	**165**	**15.1**

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

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



Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,257 million euro in the first six months of 2020, up compared to 1,092 million euro in the first half of 2019. The increase was due to income from operations on assets designated at fair value through profit or loss (+270 million euro), driven by income on interest rates, which benefited from the valuation effects due to the debt value adjustment (DVA) correlated to the liabilities in the form of certificates, and on credit derivatives, which reflected the positive results of the related hedging strategies. On the other hand, there was a reduced contribution by Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities (-105 million euro), which reflected lower capital gains on securities and income on equity instruments (-183 million euro), primarily due to a decline in market indices transactions in certificates issued.

(millions of euro)

	2020		Changes	
	Second quarter	**First quarter**	**amount**	**%**
Interest rates	132	199	-67	-33.7
Equity instruments	20	2	18	
Currencies	24	31	-7	-22.6
Structured credit products	12	-38	50	
Credit derivatives	-37	278	-315	
Commodity derivatives	7	7	-	-
Income from operations on assets designated at fair value through profit or loss	**158**	**479**	**-321**	**-67.0**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	105	515	-410	-79.6
Income (Losses) on financial assets and liabilities designated at fair value	**263**	**994**	**-731**	**-73.5**

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

The second quarter of 2020 saw a positive figure that nonetheless fell short of the exceptionally high level of the first quarter and the values for the four quarters of 2019. The slowdown in the last quarter was due to the decline in transactions involving the securities portfolio and the partial reversal of the DVA correlated with liabilities in the form of certificates.

Other operating income (expenses)

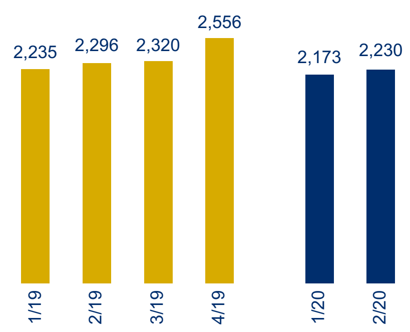
Other net operating expenses of 3 million euro are compared with the 9 million euro recorded in the first half of 2019. This caption includes both sundry operating income and expenses – including those of subsidiaries not subject to management and coordination operating in sectors completely distinct from banking and finance – and profits on investments carried at equity. The decline on the figure for the same period of 2019 was due solely to the former component.

Operating costs

	30.06.2020	30.06.2019	Changes	
			amount	%
Wages and salaries	1,875	1,926	-51	-2.6
Social security charges	486	494	-8	-1.6
Other	375	387	-12	-3.1
Personnel expenses	**2,736**	**2,807**	**-71**	**-2.5**
Information technology expenses	332	327	5	1.5
Management of real estate assets expenses	148	154	-6	-3.9
General structure costs	182	180	2	1.1
Professional and legal expenses	114	130	-16	-12.3
Advertising and promotional expenses	48	53	-5	-9.4
Indirect personnel costs	22	39	-17	-43.6
Other costs	249	273	-24	-8.8
Indirect taxes and duties	437	445	-8	-1.8
Recovery of expenses and charges	-396	-389	7	1.8
Administrative expenses	**1,136**	**1,212**	**-76**	**-6.3**
Property and equipment	243	249	-6	-2.4
Intangible assets	288	263	25	9.5
Adjustments	**531**	**512**	**19**	**3.7**
Operating costs	**4,403**	**4,531**	**-128**	**-2.8**

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 4,403 million euro in the first six months of 2020, a decrease of 2.8% on the first half of 2019.
Personnel expenses amounted to 2,736 million euro, down by 2.5%, driven primarily by downsizing at the level of average headcount, the savings from which were more than enough to offset the cost increase correlated to the effects of the renewal of the National Collective Bargaining Agreement. The downtrend was also driven by the decrease in certain expense captions tied to the spread of remote working.
Despite the greater costs associated with the health emergency, administrative expenses of 1,136 million euro (-6.3%) registered widespread savings, in particular at the level of legal and professional fees and indirect personnel costs, also influenced by the spread of remote working.
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 higher (+3.7%) than in the first half of 2019, particularly at the level of the intangible assets component.
The cost/income ratio decreased to 48.5% from 49.9% in the first half of 2019 due to careful cost management and essentially stable revenues.

(millions of euro)

	2020 Second quarter	2020 First quarter	Changes amount	Changes %
Wages and salaries	954	921	33	3.6
Social security charges	247	239	8	3.3
Other	179	196	-17	-8.7
Personnel expenses	**1,380**	**1,356**	**24**	**1.8**
Information technology expenses	167	165	2	1.2
Management of real estate assets expenses	77	71	6	8.5
General structure costs	92	90	2	2.2
Professional and legal expenses	59	55	4	7.3
Advertising and promotional expenses	27	21	6	28.6
Indirect personnel costs	9	13	-4	-30.8
Other costs	130	119	11	9.2
Indirect taxes and duties	220	217	3	1.4
Recovery of expenses and charges	-198	-198	-	-
Administrative expenses	**583**	**553**	**30**	**5.4**
Property and equipment	121	122	-1	-0.8
Intangible assets	146	142	4	2.8
Adjustments	**267**	**264**	**3**	**1.1**
Operating costs	**2,230**	**2,173**	**57**	**2.6**

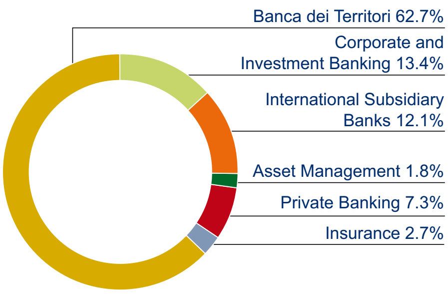
Figures restated, where necessary and material, considering the changes in the scope of consolidation.

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

	30.06.2020	30.06.2019	Changes amount	Changes %
Banca dei Territori	2,485	2,593	-108	-4.2
Corporate and Investment Banking	533	547	-14	-2.6
International Subsidiary Banks	481	479	2	0.4
Private Banking	291	288	3	1.0
Asset Management	70	72	-2	-2.8
Insurance	108	103	5	4.9
Total business areas	**3,968**	**4,082**	**-114**	**-2.8**
Corporate Centre	435	449	-14	-3.1
Intesa Sanpaolo Group	**4,403**	**4,531**	**-128**	**-2.8**

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 considerable savings compared to the first six months of 2019 (-4.2%, or -108 million euro) thanks to lower personnel expenses, attributable to a reduction in the average workforce, and to administrative expenses, in spite of the greater expenses associated with the health emergency. There were also declines in Corporate and Investment Banking (-2.6%, or -14 million euro), due to lower administrative expenses, and in Asset Management (-2.8%, or -2 million euro), due to lower personnel and administrative expenses. Conversely, costs increased for Insurance (+4.9%, or +5 million euro), due to the trend in personnel expenses and amortisation and depreciation, whereas there were more modest increases for Private Banking (+1%) and International Subsidiary Banks (+0.4%).

Operating margin

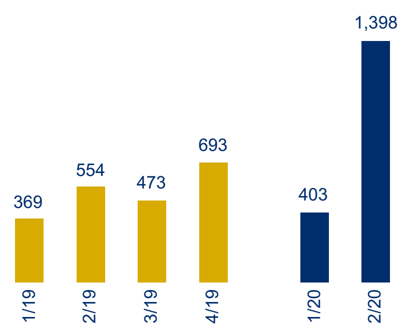
The operating margin amounted to 4,672 million euro, an increase of 2.8% or +128 million euro on the first six months of 2019, driven by the decline in operating costs.

Net adjustments to loans

	30.06.2020	30.06.2019	Changes	
			amount	%
Bad loans	-428	-356	72	20.2
Unlikely to pay	-584	-542	42	7.7
Past due loans	-177	-162	15	9.3
Stage 3 loans	**-1,189**	**-1,060**	**129**	**12.2**
of which debt securities	-	-	-	-
Stage 2 loans	**-461**	**-111**	**350**	
of which debt securities	*7*	*-12*	*19*	
Stage 1 loans	**-105**	**211**	**-316**	
of which debt securities	-	*1*	*-1*	
Net losses/recoveries on impairment of loans	**-1,755**	**-960**	**795**	**82.8**
Profits/losses from changes in contracts without derecognition	**-8**	**-2**	**6**	
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**-38**	**39**	**-77**	
Net adjustments to loans	**-1,801**	**-923**	**878**	**95.1**

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 half of 2020, adjustments to loans came to 1,801 million euro, compared to the 923 million euro recorded in the same period of the previous year. The increase was essentially due to the greater provisions required by the revision of the scenario following the epidemic event, in application of the customary methods adopted by the Group, while taking account of the prospective scenario outlined by the ECB and the Bank of Italy, with the recognition of adjustments of approximately 880 million euro, of which 730 million euro to performing loans and the remainder to non-performing loans. Those in Stage 3 increased by 129 million euro, broken down as follows: 72 million euro to bad loans, 42 million euro to unlikely-to-pay loans and 15 million euro to past-due loans. Non-performing loans continued to decline as a percentage of total loans in 2020 due to lower reclassifications as NPLs; however, the annualised cost of risk, expressed as the ratio of net adjustments to net loans, rose to 89 basis points (compared to 53 basis points at the end of 2019) as a result of the aforementioned provisions due to the revised scenario. Excluding this extraordinary component, the annualised cost of risk fell to 46 basis points.

Total coverage of non-performing loans amounted to 53.1%. In detail, bad loans required total net adjustments of 428 million euro, compared to 356 million euro in the first six months of 2019, with a coverage ratio of 63.6%. Net impairment losses on unlikely to pay loans, totalling 584 million euro, were up by 7.7%, with a coverage ratio of 40.2%. Net impairment losses on past due loans amounted to 177 million euro, with a coverage ratio of 17%. The coverage ratio for forborne positions within the non-performing loans category was 42.3% at the end of June 2020. Finally, the coverage ratio of performing loans was 0.6%.

(millions of euro)

	2020		Changes	
	Second quarter	First quarter	amount	%
Bad loans	-244	-184	60	32.6
Unlikely to pay	-388	-196	192	98.0
Past due loans	-113	-64	49	76.6
Stage 3 loans	**-745**	**-444**	**301**	**67.8**
of which debt securities	-	-	-	-
Stage 2 loans	**-471**	**10**	**-481**	
of which debt securities	*2*	*5*	*-3*	*-60.0*
Stage 1 loans	**-136**	**31**	**-167**	
of which debt securities	-	-	-	-
Net losses/recoveries on impairment of loans	**-1,352**	**-403**	**949**	
Profits/losses from changes in contracts without derecognition	**-4**	**-4**	**-**	**-**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**-42**	**4**	**-46**	
Net adjustments to loans	**-1,398**	**-403**	**995**	

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

Following the provisions for COVID-19, adjustments to loans in the second quarter of 2020 were much higher than in the first quarter and the average level for the quarters of 2019.

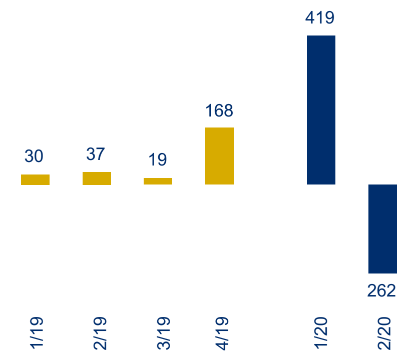
Other net provisions and net impairment losses on other assets

(millions of euro)

	30.06.2020	30.06.2019	Changes	
			amount	%
Other net provisions	-68	-36	32	88.9
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-7	-27	-20	-74.1
Net impairment losses on other assets	-73	-3	70	
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-9	-1	8	
Other net provisions and net impairment losses on other assets	**-157**	**-67**	**90**	

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 six months of 2020, other net provisions and net impairment losses on other assets amounted to 157 million euro, compared with the 67 million euro recognised in the first half of 2019. The increase recorded in the first half of the year was mainly due to greater adjustments to other assets and higher net provisions for legal and tax disputes.

(millions of euro)

	2020		Changes	
	Second quarter	First quarter	amount	%
Other net provisions	274	-342	616	
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-	-7	-7	
Net impairment losses on other assets	-9	-64	-55	-85.9
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-3	-6	-3	-50.0
Other net provisions and net impairment losses on other assets	**262**	**-419**	**681**	

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

The second quarter of 2020 saw a recovery, since the precautionary provision (312 million euro) recognised in the first quarter in advance against an initial estimate of the effects of the COVID-19 pandemic on performing loans was reversed, inasmuch as the adjustments to loans at 30 June 2020 include the updated assessment of the loan portfolio according to the customary methods adopted by the group and taking account of the prospective scenario prepared by the ECB and by the Bank of Italy.

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 expenses amounted to 18 million euro, compared with other income of 7 million euro in the first half of 2019.

Income (Loss) from discontinued operations
In the first half of 2020 this caption, which amounted to income of 1,163 million euro, relating to the income components attributable to the business line consisting of the acquiring activities transferred to Nexi (1,110 million euro, of which a day-one profit of 315 million euro correlated with the acquisition of the Nexi shares, and 53 million euro of profits on the unit sold) was compared with 41 million euro reported in the first six months of 2019.

Gross income (loss)
In the first half of 2020, income before tax from continuing operations came to 3,859 million euro, up 7.1% compared to the same period of 2019.

Taxes on income
Current and deferred taxes came to 874 million euro for an effective tax rate of 22.6%, lower than in the same period of 2019 (27.2%) due to the reduced taxation of the Nexi capital gain.

Charges (net of tax) for integration and exit incentives
This caption amounted to 50 million euro, essentially stable compared to the figure reported in the first six 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 half of 2020, these expenses came to 50 million euro, compared to the 68 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 six months of 2020, these charges amounted to 277 million euro, higher than the 242 million euro recorded in the same period of 2019, essentially due to the increased resolution fund charges. The charges recognised during the half-year may be broken down as follows: -233 million euro attributable to resolution funds, -11 million euro to deposit guarantee funds and -33 million euro to charges recognised by international subsidiary banks.

Minority interests
The minority interest share of net income of companies within the scope of line-by-line consolidation (attributable to the insurance company acquired, RBM Salute) amounted to 42 million euro for the reporting period, compared with net losses of 7 million euro in the first half of 2019.

Net income (loss)

As a result of the above trends, the Group ended the first half of 2020 with net income of 2,566 million euro, up by 13.2% on the 2,266 million euro recorded in the same period of 2019, due to the decrease in costs and the benefits arising from the amount of the aforementioned capital gain on the sale of the acquiring business, not offset by adjustments to loans to reflect the revision of the scenario, while revenues remained essentially stable. This performance should be viewed in an even more positive light in view of the scenario during the period, which in March began to see the full 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. In particular, the restatement involved the balance sheet results of RBM Assicurazione Salute, which entered the line-by-line scope of consolidation in the second quarter of 2020 due to the finalisation of the acquisition of the majority shareholding of the company.

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 separate presentation of Due to banks at amortised cost;
– the aggregation of Due to customers at amortised cost and Securities issued into one caption;
– the aggregation into one caption (Allowances for risks and charges) of allowances for specific purposes (Employee termination indemnities, Allowances for risks and charges, Allowances for commitments and financial guarantees given);
– the reclassification of Lease payables to a specific sub-caption of Other liabilities;
– the presentation of Reserves as an aggregate and net of any treasury shares.

Reclassified balance sheet

(millions of euro)

Assets	30.06.2020	31.12.2019	Changes	
			amount	%
Due from banks	61,649	47,170	14,479	30.7
Loans to customers	403,337	395,229	8,108	2.1
Loans to customers measured at amortised cost	*402,075*	*394,093*	*7,982*	*2.0*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,262*	*1,136*	*126*	*11.1*
Financial assets measured at amortised cost which do not constitute loans	33,937	25,888	8,049	31.1
Financial assets at fair value through profit or loss	59,943	48,636	11,307	23.2
Financial assets at fair value through other comprehensive income	73,403	72,046	1,357	1.9
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	165,342	168,233	-2,891	-1.7
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	735	649	86	13.3
Investments in associates and companies subject to joint control	1,462	1,240	222	17.9
Property, equipment and intangible assets	17,057	17,157	-100	-0.6
Assets owned	*15,626*	*15,659*	*-33*	*-0.2*
Rights of use acquired under leases	*1,431*	*1,498*	*-67*	*-4.5*
Tax assets	15,805	15,476	329	2.1
Non-current assets held for sale and discontinued operations	2,593	494	2,099	
Other assets	23,385	24,352	-967	-4.0
Total Assets	**858,648**	**816,570**	**42,078**	**5.2**

(millions of euro)

Liabilities	30.06.2020	31.12.2019	Changes	
			amount	%
Due to banks at amortised cost	108,601	103,316	5,285	5.1
Due to customers at amortised cost and securities issued	426,533	414,578	11,955	2.9
Financial liabilities held for trading	55,132	45,226	9,906	21.9
Financial liabilities designated at fair value	2,060	4	2,056	
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,771	818	953	
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,860	75,935	-3,075	-4.0
Tax liabilities	2,204	2,322	-118	-5.1
Liabilities associated with non-current assets held for sale and discontinued operations	2,381	41	2,340	
Other liabilities	33,789	23,433	10,356	44.2
of which lease payables	*1,439*	*1,496*	*-57*	*-3.8*
Technical reserves	89,950	89,243	707	0.8
Allowances for risks and charges	4,564	5,132	-568	-11.1
of which allowances for commitments and financial guarantees given	*517*	*482*	*35*	*7.3*
Share capital	9,086	9,086	-	-
Reserves	42,419	38,250	4,169	10.9
Valuation reserves	-1,441	-157	1,284	
Valuation reserves pertaining to insurance companies	403	504	-101	-20.0
Equity instruments	5,549	4,103	1,446	35.2
Minority interests	221	554	-333	-60.1
Net income (loss)	2,566	4,182	-1,616	-38.6
Total liabilities and shareholders' equity	**858,648**	**816,570**	**42,078**	**5.2**

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			
	30/6	31/3	31/12	30/9	30/6	31/3
Due from banks	61,649	67,440	47,170	71,958	77,141	85,515
Loans to customers	403,337	404,900	395,229	395,193	394,253	395,595
Loans to customers measured at amortised cost	*402,075*	*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	*1,262*	*1,274*	*1,136*	*904*	*1,010*	*605*
Financial assets measured at amortised cost which do not constitute loans	33,937	29,353	25,888	24,104	20,396	19,995
Financial assets at fair value through profit or loss	59,943	55,431	48,636	54,542	52,693	47,626
Financial assets at fair value through other comprehensive income	73,403	71,865	72,046	75,052	65,996	66,406
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	165,342	158,687	168,233	167,083	159,220	155,289
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	735	604	649	603	615	738
Investments in associates and companies subject to joint control	1,462	1,273	1,240	1,113	1,071	1,075
Property, equipment and intangible assets	17,057	16,970	17,157	16,957	16,963	16,967
Assets owned	15,626	15,505	15,659	15,415	15,393	15,385
Rights of use acquired under leases	1,431	1,465	1,498	1,542	1,570	1,582
Tax assets	15,805	15,992	15,476	15,575	16,139	16,870
Non-current assets held for sale and discontinued operations	2,593	765	494	2,554	803	1,236
Other assets	23,385	25,141	24,352	24,501	23,586	22,444
Total Assets	**858,648**	**848,421**	**816,570**	**849,235**	**828,876**	**829,756**

Liabilities and Shareholders' Equity	2020		2019			
	30/6	31/3	31/12	30/9	30/6	31/3
Due to banks at amortised cost	108,601	120,110	103,316	119,509	120,232	123,326
Due to customers at amortised cost and securities issued	426,533	424,533	414,578	415,128	411,588	416,505
Financial liabilities held for trading	55,132	54,376	45,226	53,938	51,187	48,433
Financial liabilities designated at fair value	2,060	762	4	4	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,771	818	818	879	847	846
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,860	68,822	75,935	74,405	72,027	70,955
Tax liabilities	2,204	2,581	2,322	2,520	2,015	2,634
Liabilities associated with non-current assets held for sale and discontinued operations	2,381	50	41	256	254	260
Other liabilities	33,789	27,078	23,433	32,298	26,573	22,710
of which lease payables	*1,439*	*1,469*	*1,496*	*1,523*	*1,547*	*1,553*
Technical reserves	89,950	87,060	89,243	89,337	84,807	82,648
Allowances for risks and charges	4,564	5,139	5,132	5,169	5,265	5,698
of which allowances for commitments and financial guarantees given	*517*	*477*	*482*	*423*	*450*	*449*
Share capital	9,086	9,086	9,086	9,086	9,086	9,085
Reserves	42,419	42,380	38,250	38,197	38,232	41,704
Valuation reserves	-1,441	-1,833	-157	-194	-474	-877
Valuation reserves pertaining to insurance companies	403	182	504	727	322	137
Equity instruments	5,549	5,550	4,103	4,103	4,103	4,103
Minority interests	221	576	554	563	542	535
Net income (loss)	2,566	1,151	4,182	3,310	2,266	1,050
Total Liabilities and Shareholders' Equity	**858,648**	**848,421**	**816,570**	**849,235**	**828,876**	**829,756**

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

BANKING BUSINESS

Loans to customers

Loans to customers: breakdown

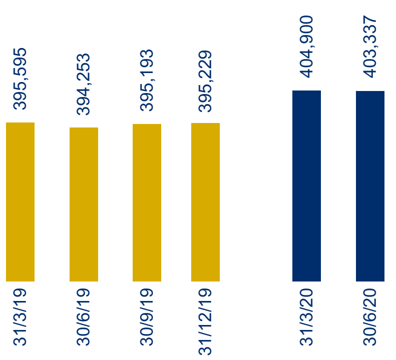
(millions of euro)

	30.06.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	19,691	4.9	20,455	5.1	-764	-3.7
Mortgages	191,436	47.4	176,640	44.7	14,796	8.4
Advances and other loans	153,571	38.1	148,540	37.6	5,031	3.4
Commercial banking loans	**364,698**	**90.4**	**345,635**	**87.4**	**19,063**	**5.5**
Repurchase agreements	**18,482**	**4.6**	**29,531**	**7.5**	**-11,049**	**-37.4**
Loans represented by securities	**6,146**	**1.5**	**5,841**	**1.5**	**305**	**5.2**
Non-performing loans	**14,011**	**3.5**	**14,222**	**3.6**	**-211**	**-1.5**
Loans to customers	**403,337**	**100.0**	**395,229**	**100.0**	**8,108**	**2.1**

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

The Group's loans to customers came to 403 billion euro as at 30 June 2020, marking a year-to-date increase of 8.1 billion euro, or +2.1%. The growth of the aggregate was due to commercial banking loans (+19.1 billion euro, or +5.5%), and in particular to the growth of mortgages and other medium-/long-term loans (+14.8 billion euro, or +8.4%), which reflect the Group's support for the Italian economy, including in relation to the extraordinary measures taken by the government, and the increase in advances and loans (+5 billion euro, or +3.4%), whereas current accounts decreased slightly (-0.8 billion euro, or -3.7%). The favourable performance of trade receivables more than offset the significant decline in repurchase agreements (-11 billion euro) and the slight decrease in non-performing loans (-0.2 billion euro).
In the domestic medium/long-term loan market, disbursements to households in the first half of 2020 (including the small business accounts having similar needs to family businesses) amounted to 11.1 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 10.1 billion euro. During the period, medium/long-term disbursements to customers of the Corporate and Investment Banking Division amounted to 13.9 billion euro. Disbursements within Italy, inclusive of loans to the non-profit sector and disbursements through third networks, amounted to 35.4 billion euro. If the activities of the international subsidiary banks are included, the Group’s medium/long-term disbursements reached 40.2 billion euro.
As at 30 June 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 June are not yet available.

Quarterly development
Loans to customers
(millions of euro)

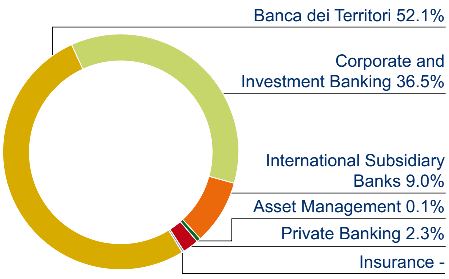


(millions of euro)

	30.06.2020	31.12.2019	Changes	
			amount	%
Banca dei Territori	201,715	194,358	7,357	3.8
Corporate and Investment Banking	141,627	131,884	9,743	7.4
International Subsidiary Banks	34,806	34,038	768	2.3
Private Banking	9,100	9,329	-229	-2.5
Asset Management	239	435	-196	-45.1
Insurance	-	-	-	-
Total business areas	**387,487**	**370,044**	**17,443**	**4.7**
Corporate Centre	15,850	25,185	-9,335	-37.1
Intesa Sanpaolo Group	**403,337**	**395,229**	**8,108**	**2.1**

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 over one-half of the aggregate of the Group's business areas, recorded an increase of 7.4 billion euro year-to-date (+3.8%), due mainly to medium-/long-term loans to SMEs and retail businesses, which reflect the Group's support for the Italian economy, including in light of the extraordinary measures taken by the government. The strongest growth trend was at the level of the Corporate and Investment Banking Division (+9.7 billion euro, or +7.4%), essentially due to medium-/long-term loans to global corporate and financial institutions customers and structured finance transactions, in addition to the short-term business of the Global Markets segment. The loans of the International Subsidiary Banks Division grew (+0.8 billion euro, or +2.3%) specifically due to the increase in the loans issued by the subsidiaries operating in Slovakia, Serbia, Croatia and Egypt. 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 (-2.5%), due above all to the effect of the decline in other loans and repurchase agreements with institutional customers, only partly offset by the growth of current accounts.
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)

	30.06.2020		31.12.2019		Change
	Net exposure	**% breakdown**	**Net exposure**	**% breakdown**	**Net exposure**
Bad loans	6,399	1.6	6,740	1.7	-341
Unlikely to pay	6,635	1.7	6,738	1.7	-103
Past due loans	977	0.2	744	0.2	233
Non-Performing Loans	**14,011**	**3.5**	**14,222**	**3.6**	**-211**
Non-performing loans in Stage 3 (subject to impairment)	*13,982*	*3.5*	*14,195*	*3.6*	*-213*
Non-performing loans measured at fair value through profit or loss	*29*	*-*	*27*	*-*	*2*
Performing loans	**383,158**	**95.0**	**375,142**	**94.9**	**8,016**
Stage 2	*61,517*	*15.3*	*40,078*	*10.1*	*21,439*
Stage 1	*320,805*	*79.5*	*334,344*	*84.6*	*-13,539*
Performing loans measured at fair value through profit or loss	*836*	*0.2*	*720*	*0.2*	*116*
Performing loans represented by securities	**6,146**	**1.5**	**5,841**	**1.5**	**305**
Stage 2	*2,788*	*0.7*	*2,942*	*0.8*	*-154*
Stage 1	*3,358*	*0.8*	*2,899*	*0.7*	*459*
Loans held for trading	**22**	**-**	**24**	**-**	**-2**
Total loans to customers	**403,337**	**100.0**	**395,229**	**100.0**	**8,108**
of which forborne performing	***5,870***		***5,663***		***207***
of which forborne non-performing	***3,908***		***4,038***		***-130***
Loans to customers classified as discontinued operations (*)	**157**		**382**		**-225**

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

(*) As at 30 June 2020, this caption included the portfolio of unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 168 million euro, total adjustments of 11 million euro, net exposure of 157 million).

As at 30 June 2020, the Group's net non-performing loans amounted to 14 billion euro, down by 1.5% compared with the beginning of the year, continuing the progressive decline that marked 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 (53.1%).

In further detail, at the end of June 2020 bad loans came to 6.4 billion euro net of adjustments (down by 341 million euro on the beginning of the year, or -5.1%), and represented 1.6% of total loans. During the same period, the coverage ratio came to 63.6%. 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 40.2%. Past due loans amounted to 977 million euro (+31.3%), with a coverage ratio of 17%. 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 42.3%, while forborne exposures in the performing loans category amounted to 5.9 billion euro.
The coverage ratio for performing loans rose to 0.6% as a result of 730 million euro of prudential provisions due to the revision of the scenario. These were in addition to approximately 150 million euro of adjustments to non-performing loans, bringing the total provisions due to the revision of the scenario following the COVID-19 pandemic to approximately 880 million euro.

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					
30.06.2020	20,171	58,037	20,634	**98,842**	X
31.12.2019	12,510	57,750	12,249	**82,509**	X
Changes amount	7,661	287	8,385	**16,333**	
Changes %	61.2	0.5	68.5	**19.8**	
Other debt securities					
30.06.2020	4,297	11,768	13,303	**29,368**	X
31.12.2019	5,739	11,237	13,639	**30,615**	X
Changes amount	-1,442	531	-336	**-1,247**	
Changes %	-25.1	4.7	-2.5	**-4.1**	
Equities					
30.06.2020	852	3,598	X	**4,450**	X
31.12.2019	989	3,059	X	**4,048**	X
Changes amount	-137	539	X	**402**	
Changes %	-13.9	17.6	X	**9.9**	
Quotas of UCI					
30.06.2020	3,088	X	X	**3,088**	X
31.12.2019	2,996	X	X	**2,996**	X
Changes amount	92	X	X	**92**	
Changes %	3.1	X	X	**3.1**	
Due to banks and to customers					
30.06.2020	X	X	X	**X**	-12,984
31.12.2019	X	X	X	**X**	-7,068
Changes amount	X	X	X	**X**	5,916
Changes %	X	X	X	**X**	83.70
Financial derivatives					
30.06.2020	30,620	X	X	**30,620**	-31,994
31.12.2019	25,475	X	X	**25,475**	-26,161
Changes amount	5,145	X	X	**5,145**	5,833
Changes %	20.2	X	X	**20.2**	22.3
Credit derivatives					
30.06.2020	915	X	X	**915**	-941
31.12.2019	927	X	X	**927**	-1,067
Changes amount	-12	X	X	**-12**	-126
Changes %	-1.3	X	X	**-1.3**	-11.8
TOTAL 30.06.2020	**59,943**	**73,403**	**33,937**	**167,283**	**-45,919**
TOTAL 31.12.2019	**48,636**	**72,046**	**25,888**	**146,570**	**-34,296**
Changes amount	**11,307**	**1,357**	**8,049**	**20,713**	**11,623**
Changes %	**23.2**	**1.9**	**31.1**	**14.1**	**33.9**

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

(*) The amount of the item does not include certificates which are included in the direct deposits from banking business table.

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

The Intesa Sanpaolo Group's other financial assets, excluding those of the insurance companies, amounted to 167 billion euro, up by 14.1% compared with the end of 2019, whereas financial liabilities held for trading came to 46 billion euro, up by 33.9%.

The increase in total financial assets was essentially due to government debt securities (+16.3 billion euro, or +19.8%), whereas other debt securities declined (-1.2 billion euro). Derivative financial assets also increased (+5.1 billion euro, or

+20.2%), in line with the growth in financial derivatives recognised among financial liabilities held for trading (+5.8 billion euro, or +22.3%).

Financial assets measured at fair value through profit or loss amounted to approximately 60 billion euro, marking an increase (+11.3 billion euro, or +23.2%) largely due to government debt securities (+7.7 billion euro) and financial derivatives (+5.1 billion euro), which more than offset the decline in other debt securities (-1.4 billion euro).

Financial assets measured at fair value through other comprehensive income exceeded 73 billion euro, almost entirely classified to Stage 1, up slightly (+1.9%) year-to-date.

Instruments measured at amortised cost which do not constitute loans amounted to approximately 34 billion euro, up by 31.1% essentially due to the growth of instruments classified to Stage 1, which accounted for over 84% 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			
30.06.2020	67,084	28,576	**95,660**
31.12.2019	66,400	21,472	**87,872**
Changes amount	684	7,104	**7,788**
Changes %	1.0	33.1	**8.9**
Stage 2			
30.06.2020	2,721	5,348	**8,069**
31.12.2019	2,587	4,403	**6,990**
Changes amount	134	945	**1,079**
Changes %	5.2	21.5	**15.4**
Stage 3			
30.06.2020	-	13	**13**
31.12.2019	-	13	**13**
Changes amount	-	-	**-**
Changes %	-	-	**-**
TOTAL 30.06.2020	**69,805**	**33,937**	**103,742**
TOTAL 31.12.2019	**68,987**	**25,888**	**94,875**
Changes amount	**818**	**8,049**	**8,867**
Changes %	**1.2**	**31.1**	**9.3**

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

Customer financial assets

(millions of euro)

	30.06.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	437,806	45.5	425,512	44.3	12,294	2.9
Direct deposits from insurance business and technical reserves	163,903	17.0	165,945	17.3	-2,042	-1.2
Indirect customer deposits	523,454	54.4	534,456	55.6	-11,002	-2.1
Netting (a)	-162,750	-16.9	-165,129	-17.2	-2,379	-1.4
Customer financial assets	**962,413**	**100.0**	**960,784**	**100.0**	**1,629**	**0.2**

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).

As at 30 June 2020, customer financial assets were restored to the levels of the end of December 2019, following the sharp decline that occurred in March, amounting to 962 billion euro (+0.2%). While on the one hand direct deposits from banking business continued to increase progressively (+12.3 billion euro year to date), on the other direct deposits from insurance business and indirect customer deposits, which are much more exposed to market volatility, struggled to recover from the abrupt price correction triggered by the lockdown ordered in response to the pandemic emergency. Deposits from insurance business and technical reserves declined moderately during the half-year (-2 billion euro) and indirect deposits decreased by 11 billion euro.

Direct deposits from banking business

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

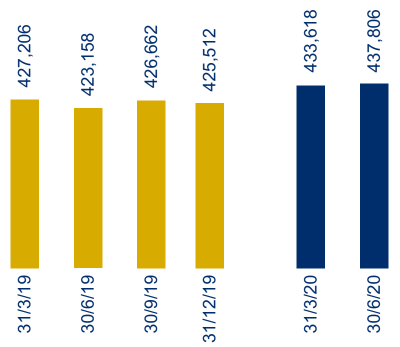
(millions of euro)

	30.06.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	335,885	76.7	316,810	74.4	19,075	6.0
Repurchase agreements and securities lending	2,623	0.6	4,505	1.1	-1,882	-41.8
Bonds	55,964	12.8	65,485	15.4	-9,521	-14.5
Certificates of deposit	5,193	1.2	4,574	1.1	619	13.5
Subordinated liabilities	10,897	2.5	9,308	2.2	1,589	17.1
Other deposits	27,244	6.2	24,830	5.8	2,414	9.7
of which designated at fair value (*)	*11,273*	*2.6*	*10,934*	*2.6*	*339*	*3.1*
Direct deposits from banking business	**437,806**	**100.0**	**425,512**	**100.0**	**12,294**	**2.9**

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)



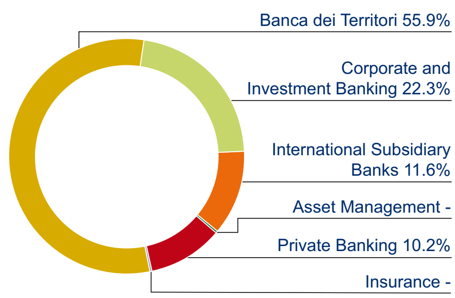
Direct deposits from banking business came to 438 billion euro, up by 2.9% on the beginning of the year.
The positive performance was essentially due to the growth of current accounts and deposits (+19.1 billion euro, which represent a considerable reserve for funding the asset management industry), other deposits, inclusive of commercial paper (+2.4 billion euro), and subordinated liabilities (+1.6 billion euro), which more than offset the downtrend in bonds (-9.5 billion euro), repurchase agreements and securities lending (-1.9 billion euro, largely attributable to institutional counterparties).
As at 30 June 2020, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18.8%. As described above with reference to loans, this estimate is based on the sample deriving from the ten-day report produced by the Bank of Italy.

(millions of euro)

	30.06.2020	31.12.2019	Changes	
			amount	%
Banca dei Territori	213,285	199,256	14,029	7.0
Corporate and Investment Banking	85,108	86,850	-1,742	-2.0
International Subsidiary Banks	44,109	43,420	689	1.6
Private Banking	38,714	39,537	-823	-2.1
Asset Management	9	10	-1	-10.0
Insurance	-	-	-	-
Total business areas	**381,225**	**369,073**	**12,152**	**3.3**
Corporate Centre	56,581	56,439	142	0.3
Intesa Sanpaolo Group	**437,806**	**425,512**	**12,294**	**2.9**

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 56% of the aggregate of the Group's business areas, increased by 14 billion euro year-to-date (+7%), due to amounts due to customers, owing to the greater liquidity in deposits by SMEs and retail customers. The Corporate and Investment Banking Division recorded a decline of 1.7 billion euro (-2%) due to the decrease in securities issued, only partially offset by the growth in amounts due to global corporate customers and the Luxembourg subsidiary. The International Subsidiary Banks Division reported an increase in funding (+0.7 billion euro, or +1.6%) attributable to the performance of the subsidiaries operating in Slovakia, Croatia, Serbia and Slovenia. The Private Banking Division reported a decline (-0.8 billion euro, or -2.1%), concentrated in customer current account deposits.
Corporate Centre funding remained essentially constant.

Indirect customer deposits

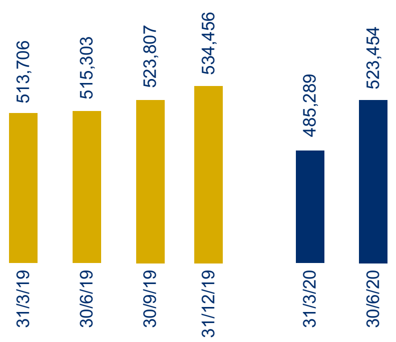
(millions of euro)

	30.06.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds (a)	118,169	22.6	122,998	23.0	-4,829	-3.9
Open-ended pension funds and individual pension plans	10,410	2.0	10,327	1.9	83	0.8
Portfolio management	55,665	10.6	56,484	10.6	-819	-1.4
Technical reserves and financial liabilities of the insurance business	150,053	28.7	152,097	28.5	-2,044	-1.3
Relations with institutional customers	16,392	3.1	16,199	3.0	193	1.2
Assets under management	**350,689**	**67.0**	**358,105**	**67.0**	**-7,416**	**-2.1**
Assets under administration and in custody	**172,765**	**33.0**	**176,351**	**33.0**	**-3,586**	**-2.0**
Indirect customer deposits	**523,454**	**100.0**	**534,456**	**100.0**	**-11,002**	**-2.1**

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 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.

Quarterly development
Indirect customer deposits
(millions of euro)



As at 30 June 2020, the Group’s indirect customer deposits were down to 523 billion euro, a decline of 2.1% from 534 billion euro at the end of December 2019.
Assets under management, which account for two-thirds of the total aggregate, decreased by 7.4 billion euro (-2.1%), spread across all main components: from mutual funds (-3.9%) to life polices (-1.3%) and portfolio management schemes (-1.4%), not balanced out by the slight increase in relations with institutional customers (+1.2%) and pension products (+0.8%). In the period, the new life business of the insurance companies of the Intesa Sanpaolo Group, including pension products, amounted to 6.8 billion euro. Assets under administration, like assets under management, also declined (-2%), essentially due to securities and third-party products in custody.

Net interbank position

The net interbank position as at 30 June 2020 stood at net debt of 47 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 108.6 billion euro, include a 70.9-billion-euro exposure to the ECB.

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							
30.06.2020	118	4,186	57,545	-	**61,849**	X	
31.12.2019	120	4,107	58,012	-	**62,239**	X	
Changes amount	-2	79	-467	-	**-390**		
Changes %	-1.7	1.9	-0.8	-	**-0.6**		
Other debt securities							
30.06.2020	24	754	12,470	-	**13,248**	X	
31.12.2019	25	707	12,099	-	**12,831**	X	
Changes amount	-1	47	371		**417**		
Changes %	-4.0	6.6	3.1		**3.2**		
Equities							
30.06.2020	-	2,310	1,607	-	**3,917**	X	
31.12.2019	-	2,315	1,480	-	**3,795**	X	
Changes amount	-	-5	127	-	**122**		
Changes %	-	-0.2	8.6	-	**3.2**		
Quotas of UCI							
30.06.2020	160	73,808	11,461	-	**85,429**	X	
31.12.2019	165	76,620	11,819	-	**88,604**	X	
Changes amount	-5	-2,812	-358	-	**-3,175**		
Changes %	-3.0	-3.7	-3.0	-	**-3.6**		
Due from banks and loans to customers							
30.06.2020	-	553	-	735	**1,288**	X	
31.12.2019	-	516	-	649	**1,165**	X	
Changes amount	-	37	-	86	**123**		
Changes %	-	7.2	-	13.3	**10.6**		
Due to banks							
30.06.2020	X	X	X	X	**X**	-618	(**)
31.12.2019	X	X	X	X	**X**	-2	(**)
Changes amount						616	
Changes %							
Financial derivatives							
30.06.2020	345	-	-	-	**345**	-60	(***)
31.12.2019	248	-	-	-	**248**	-49	(***)
Changes amount	97	-	-	-	**97**	11	
Changes %	39.1	-	-	-	**39.1**	22.4	
Credit derivatives							
30.06.2020	1	-	-	-	**1**	-	(***)
31.12.2019	-	-	-	-	**-**	-	(***)
Changes amount	1	-	-	-	**1**	-	
Changes %	-	-	-	-	**-**	-	
TOTAL 30.06.2020	**648**	**81,611**	**83,083**	**735**	**166,077**	**-678**	
TOTAL 31.12.2019	**558**	**84,265**	**83,410**	**649**	**168,882**	**-51**	
Changes amount	**90**	**-2,654**	**-327**	**86**	**-2,805**	**627**	
Changes %	**16.1**	**-3.1**	**-0.4**	**13.3**	**-1.7**		

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 166 billion euro and 678 million euro, respectively. The decrease in assets (-1.7%) – due to both the designated at fair value portfolio and, to a lesser extent, the available for sale portfolio – was affected by the depreciation of assets in portfolio driven by market performance.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.06.2020		31.12.2019		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value (*)	**72,800**	**44.4**	**75,886**	**45.7**	**-3,086**	**-4.1**
Index-linked products	-	-	-	-	-	-
Unit-linked products	*72,800*	*44.4*	*75,886*	*45.7*	*-3,086*	*-4.1*
Technical reserves	**89,950**	**54.9**	**89,243**	**53.8**	**707**	**0.8**
Life business	88,816	54.2	88,169	53.2	647	0.7
Mathematical reserves	*76,193*	*46.5*	*75,092*	*45.3*	*1,101*	*1.5*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*7,009*	*4.3*	*6,960*	*4.2*	*49*	*0.7*
Other reserves	*5,614*	*3.4*	*6,117*	*3.7*	*-503*	*-8.2*
Non-life business	1,134	0.7	1,074	0.6	60	5.6
Other insurance deposits (***)	**1,153**	**0.7**	**816**	**0.5**	**337**	**41.3**
Direct deposits from insurance business and technical reserves	**163,903**	**100.0**	**165,945**	**100.0**	**-2,042**	**-1.2**

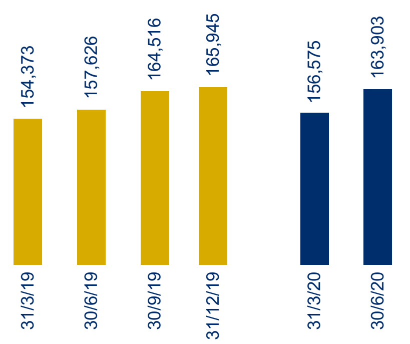
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

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

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

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

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



Direct deposits from insurance business came to 164 billion euro as at 30 June 2020, down by 1.2% compared with the beginning of the year. Financial liabilities measured at fair value, consisting of unit-linked products, decreased by 3.1 billion euro (-4.1%), only partly offset by the slight uptrend in technical reserves and in deposits from insurance business. Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded an increase of 0.7 billion euro (+0.8%), mainly attributable to the life business, which accounts for almost all reserves.

INFORMATION ON INTANGIBLE ASSETS AND GOODWILL

The application of IFRS 3 to the accounting of acquisitions may lead to the recognition of new intangible assets and goodwill.
In the case of the Intesa Sanpaolo Group, the merger between Banca Intesa and Sanpaolo IMI and the subsequent acquisitions carried out in the previous years (of the asset management portfolio of former Nextra, CR Firenze, Pravex Bank, Intesa Vita, the bank branches, Banca Monte Parma, certain assets and liabilities of the former Venetian banks, the Morval Group and the Autostrade Lombarde Group) led to the recognition of significant amounts for intangible assets and goodwill.
During the first half of 2020, a new amount of goodwill was recognised as a result of the business combination in which Intesa Sanpaolo Vita took control of RBM Assicurazione Salute, the third largest operator in Italy in the health insurance market. According to the agreement, Intesa Sanpaolo Vita will progressively increase its shareholding to 100% of the target’s share capital from 2020 to 2029 through an initial acquisition of 50% plus one share of RBM’s share capital, payable in cash - which took place on 11 May 2020 - and the purchase of additional shares over time through a mechanism of put and call options agreed with the minority shareholders exercisable between 1 January and 31 July 2026 and between 1 January and 31 July 2029. In accordance with IFRS 3, a comparison between the total acquisition cost and the shareholders' equity of RBM at fair value at the acquisition date produces a difference of 299 million euro which has been recognised as goodwill starting from the Half-yearly Report at 30 June 2020. It should be noted that the value of this goodwill is to be considered provisional as the analyses to identify and measure any specific intangibles not previously recognised by the acquired company are in progress. In this regard, it should be noted that under IFRS 3, the acquirer is allowed 12 months to finalise the purchase price allocation process. According to IAS 36, goodwill recognised in a business combination shall, from the acquisition date, be allocated to the CGU that is expected to benefit from the synergies of the business combination; the goodwill recognised from the acquisition of RBM was allocated to the Insurance CGU of the Intesa Sanpaolo Group.
In addition, during the first half of the year several events occurred, which are summarised below, that resulted in a reduction or different allocation within the Group of total recognised intangible assets compared to 31 December 2019. More specifically:

- the reclassification of the goodwill in Autostrade Lombarde to discontinued operations, and
- the elimination of the goodwill and intangibles attributable to the business line consisting of the acquiring activities transferred to Nexi upon finalisation of the transaction.

With regard to Autostrade Lombarde, on 26 June 2020 Intesa Sanpaolo and Aleàtica S.A.U., a Spanish company specialised in infrastructure investments that is 100% owned by the Australian fund IFM Global Infrastructure Fund, reached an agreement regarding the sale of the entire equity investment held in Autostrade Lombarde for a price that is higher than the carrying amount. Therefore, as required by IFRS 5, the assets and liabilities of the company (which has been identified as a separate CGU within the ISP Group given the fact that the sector in which the company operates is outside the typical banking sector) have been reclassified as assets held for sale and discontinued operations and related liabilities for the purposes of the Half-yearly Report as at 30 June 2020. Assets classified under IFRS 5 are excluded from the scope of application of IAS 36. As a result, the goodwill relating to Autostrade Lombarde, which showed no signs of impairment at the moment prior to its disposal and whose agreed sale price is higher that its book value, was reclassified to discontinued operations and, in line with the provisions of IFRS 5, accounted for at the lower of its cost or its fair value less costs to sell.
Regarding the transaction involving the business line consisting of the acquiring activities, on 30 June 2020 Intesa Sanpaolo and Nexi finalised the strategic agreement in respect of payment systems. Under the terms of the agreement, the Intesa Sanpaolo business line consisting of the acquiring activities was transferred to Nexi, with Nexi to become the sole partner of Intesa Sanpaolo in the acquiring activities and the latter to distribute the acquiring services provided by Nexi while maintaining the existing relationship with its customers. The goodwill and intangibles attributable to the business line consisting of the acquiring activities transferred to Nexi were eliminated upon finalisation of the transaction.

The table below summarises the values of the intangible assets and goodwill recorded in the consolidated financial statements with the related changes during the period, subdivided by Cash Generating Unit (CGU), which represent the groups of assets subject to impairment testing on goodwill in order to determine the recoverable amount.

(millions of euro)

CGU	Financial Statements 31.12.2019	RBM Salute acquisition (a)	Autostrade Lombarde reclassification	Disposal of Acquiring Business Line	Other changes (b)	Amortisation	Financial Statements 30.06.2020
BANCA DEI TERRITORI DIVISION	**2,568**	**-**	**-**	**-**	**-**	**-4**	**2,564**
- Asset management intangibles - distribution	65	-	-	-	-	-3	62
- Insurance intangibles - distribution	13	-	-	-	-	-1	12
- Brand name intangibles	1,507	-	-	-	-	-	1,507
- Goodwill	983	-	-	-	-	-	983
CORPORATE AND INVESTMENT BANKING DIVISION	**56**	**-**	**-**	**-**	**-**	**-**	**56**
- Goodwill	56	-	-	-	-	-	56
ASSET MANAGEMENT DIVISION	**1,060**	**-**	**-**	**-**	**-1**	**-**	**1,059**
- Goodwill	1,060	-	-	-	-1	-	1,059
PRIVATE BANKING DIVISION	**1,697**	**-**	**-**	**-**	**-**	**-2**	**1,695**
- Asset management intangibles - prod. and distribut.	31	-	-	-	-	-2	29
- Brand name intangibles	375	-	-	-	-	-	375
- Goodwill	1,291	-	-	-	-	-	1,291
INSURANCE DIVISION	**618**	**299**	**-**	**-**	**-**	**-13**	**904**
- Insurance intangibles - production	124	-	-	-	-	-13	111
- Goodwill	494	299	-	-	-	-	793
INTERNATIONAL SUBSIDIARY BANKS DIVISION	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Goodwill	-	-	-	-	-	-	-
BANK OF ALEXANDRIA (Egypt)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
PRAVEX BANK (Ukraine)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AUTOSTRADE LOMBARDE	**171**	**-**	**-171**	**-**	**-**	**-**	**-**
- Goodwill	171	-	-171	-	-	-	-
GROUP TOTAL	**6,170**	**299**	**-171**	**-**	**-1**	**-19**	**6,278**
- Asset management intangibles	96	-	-	-	-	-5	91
- Insurance intangibles	137	-	-	-	-	-14	123
- Brand name intangibles	1,882	-	-	-	-	-	1,882
- Goodwill	4,055	299	-171	-	-1	-	4,182
DISCONTINUED OPERATIONS	**69**	**-**	**171**	**-69**	**-**	**-**	**171**
- Goodwill - Acquiring business line	49	-	-	-49	-	-	
- Customer relations intangibles - Acquiring business line	20	-	-	-20	-	-	
- Autostrade Lombarde - Goodwill	-	-	171	-	-	-	171

(a) Provisional value since IFRS 3 permits the PPA process to be concluded within 12 months of an acquisition.

(b) Foreign exchange differences on the goodwill attributable to Eurizon Capital SLJ.

The intangible assets recognised include the intangible asset related to customers, represented by the measurement of the insurance portfolio and the assets under administration and under management (AUM). Such intangible assets, with a finite life, were originally measured by discounting the income margin cash flows over a period representing the residual life, contractual or estimated, of relationships existing at the time of the business combination.

The brand name, an intangible asset related to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.

For the intangible assets with a finite useful life, the amortisation for the half year was recognised in the income statement (under "220 Net adjustments to/recoveries on intangible assets") for a total of 19 million euro gross of the tax effect.

According to IAS 36, both intangible assets with an indefinite useful life and goodwill are subject to impairment testing on an annual basis, or in any case, as soon as there are signs of impairment, to verify recoverability of their value. In addition, intangible assets with a finite useful life must be tested for impairment whenever there is evidence of impairment indicators. The recoverable amount is the greater of the Value in Use and the Fair value, net of costs to sell.
In line with the guidance issued by ESMA which views the effects of the COVID-19 pandemic as an indicator of impairment, a comprehensive impairment test on the recoverability of the value of goodwill (and the brand name) was carried out for the Half-yearly Report as at 30 June 2020, as also required by IAS 36.
With regard to the other intangible assets with finite useful lives, specific analyses were conducted regarding the recoverable amount which did not identify any problems. Moreover, consideration should be given 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 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. In this regard, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows arising from intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those relating to the asset outstanding at the impairment test date. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate cash flows relating to the original asset from others.
This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3.

As in previous financial statements, given the volatility of the financial markets and the available market values for calculation of the recoverable amount and considering the current market climate which has been severely affected by the spread of the COVID-19 pandemic, the Value in Use was used in the impairment tests for the Half-yearly Report as at 30 June 2020. The exceptions to the approach based on the Value in Use regard the goodwill recognised on Autostrade Lombarde which was tested based on its Fair Value, which corresponds to the price negotiated under the proposed sale described above.

It is noted that the tests mentioned above did not concern the International Subsidiary Banks, Bank of Alexandria and Pravex Bank CGUs in consideration of the absence, as of the date of the test, of intangible assets with an indefinite life to be subject to impairment test.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the 2020 Half-yearly Report.

Impairment testing of intangibles

Insurance portfolio

Valuation of the insurance portfolio uses models normally applied to determine the embedded value, by discounting flows representing the income margins over a period deemed to express the residual maturity of the insurance portfolio outstanding at the valuation date. The resulting value, considered to have a finite life, is amortised at variable rates over a period representing the residual life of the insurance contracts. For the 2020 Half-yearly Report, the amortisation of the asset was recognised to the income statement. The amortisation for the period amounted to approximately 10% of the carrying amount of the asset at the end of 2019 (amortisation for a total of 14 million euro gross of the tax effect). The analyses on the main impairment indicators were updated for this type of intangible. However, a thorough recalculation of value of the intangible asset was not performed since:

- the trend of the insurance business did not present any particular critical issues during the first half of the year, even given the market uncertainty and volatility caused by the spread of COVID-19;
- the value of the intangible asset related to the insurance portfolio has naturally decreased by more than 80% of its initial carrying value mainly as a result of periodic amortisation and, to a limited extent, from disposals.

Asset management portfolio

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca in compulsory administrative liquidation, in 2017 the intangible assets linked to Assets Under Management (AUM) were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. The valuation, supported by an independent third party survey, resulted in the recognition of an intangible asset linked to the asset management portfolio of the former Venetian banks of 80 million euro at the acquisition date which was fully allocated to the Banca dei Territori CGU. Considering total amortisation for the period of 18 million euro, of which 3 million euro recorded in the first half of 2020, as at 30 June 2020 the related intangible asset is posted in the consolidated financial statements at a value of 62 million euro.
Similarly, as part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, starting from 2018, intangible assets referring to asset management relationships were recorded in the financial statements for 34 million euro which were fully allocated to the Private Banking CGU. Considering total amortisation for the period, amounting to 5 million euro, of which 2 million euro recorded in the first half of 2020, as at 30 June 2020 that intangible asset is posted in the consolidated financial statements at a value of 29 million euro.
With regard to impairment testing, it is noted that the analyses conducted showed no signs of impairment of the intangible assets recorded. In that regard, it should be noted that the volumes of assets underlying the measurement of the intangible

assets, if compared with the respective values of their CGUs (Banca dei Territori and Private Banking), are clearly negligible, thus confirming the strength of the value of the intangible asset recognised in the financial statements and also taking account of the fact that impairment testing must not be limited only to the cash flows deriving from the assets acquired, but should consider all the cash flows linked to the assets of the specific CGU.

Brand name

IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the Purchase Price Allocation (PPA) process.
For this purpose, please note that 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.
As this intangible asset has no independent cash flows, for impairment testing purposes for the 2020 Half-yearly Report it was included in the verification of the retention of goodwill for the various CGUs. As discussed in further detail below, the results of the impairment test did not suggest a need for an impairment loss on the brand name intangible asset.

Impairment testing of CGUs and goodwill

Introduction

As mentioned above, under IAS 36, both intangible assets with an indefinite useful life and goodwill must be subjected to an impairment test to verify the recoverability of their value each year and whenever there is an indication of impairment.
As is known, following the rapid deterioration of global economic conditions caused by the COVID-19 epidemic, during the first half of 2020, the outlook for the global financial markets was particularly negative and marked by extreme volatility. This was mainly due to the sharp drop in demand following temporary interruptions in production and expectations of a severe recession.
The epidemic and the related restrictions adopted by the various governments in an effort to contain its spread had a significant impact on the GDP of both the Eurozone and Italy in the first half of the year. More specifically, in the first part of 2020, global financial markets suffered sharp declines. However, there was a partial recovery starting from the end of March, thanks in part to measures taken by the ECB in terms of monetary policy and the extensive economic policies implemented by governments. These expansive measures, together with the gradual easing of the measures suspending businesses, led to a partial recovery in economic activity accompanied by easing of tensions in the financial markets. In fact, the sharp contraction in economic activity and international trade in April, were followed by some signs of recovery in May and June, although significant risks remain because the epidemic has intensified in some areas of the world.
In general, the view of the supervisory bodies, which is shared by the Intesa Sanpaolo Group, is that, since the crisis is caused by a public health emergency and not by economic and financial factors like many others we have already experienced, the significant measures taken in most countries to contain the virus may lead to a gradual resumption of activities within the not so distant future. This means that there will be a considerable adverse impact on business in the short term (2020), but we should already begin to see a reversal of this trend with a significant recovery in GDP from the beginning of next year. Accordingly, it therefore 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 bring about a significant recovery in production. This view is also confirmed by the latest estimates from the International Monetary Fund, which predict a fall in world GDP of 4.9% in 2020, followed by a recovery of 5.4% in 2021, by the ECB, which predicted a fall in GDP of 8.7% in 2020 followed by a recovery of 5.2% in 2021, and by the Bank of Italy, which predicted a fall in GDP of 9.2% in 2020 and a recovery of 4.8% in 2021.
This is the scenario that is also envisaged by the various Regulators who have expressed their views on the issue in a series of measures designed to ensure that the impact of the current crisis is adequately analysed (with the effects of the COVID-19 pandemic being considered an indication of impairment) and to prevent companies from limiting disclosure because of the uncertainty caused by the pandemic. Moreover, on 20 May 2020 the European Securities and Markets Authority (ESMA) published the document "Implications of the Covid-19 outbreak on the half-yearly financial reports" which outlined the main implications of the COVID-19 pandemic, with specific reference to the information to be provided in the half-yearly reports of listed issuers. Consistent with the scenario described above, ESMA finds that the pandemic has in fact introduced a high degree of uncertainty on the expected development of the pandemic and the associated knock-on effects on the economic and financial system, both at European and at international level. In this context, ESMA has consistently highlighted the need to continue providing the necessary level of transparency in financial communication. Specifically regarding impairment testing of intangible assets, ESMA feels that, in accordance with the provisions of IAS 36, companies should carefully assess whether the pandemic may constitute an indication of impairment with the consequent preparation of a new computation of the recoverable amount of the CGUs. In making this assessment, companies must carefully consider the effects of the pandemic and, in the current highly uncertain environment, the cash flow projections underlying the computation must be based on reasonable, supportable and realistic estimates and assumptions to avoid the risk of overly optimistic or pessimistic biases. The discount rates used shall reflect current market assessments of the time value of money and the risks specific to the asset being tested and exclude risks and uncertainties that were already taken into account in the projected cash flows. ESMA also emphasised the importance of sensitivity analyses on the assumptions underlying the estimates made.
It should be noted that Consob issued a specific document calling on issuers to provide updated information both on the risks associated with COVID-19, which may have an impact on operating results, financial position and cash flows, and on any measures taken or planned to mitigate such risks, together with an indication of the potential qualitative and/or quantitative impacts that were considered when estimating future company performance.
In light of the above and consistent with guidance issued by the main Supervisory Authorities, the effects of the COVID-19 pandemic were considered an indication of impairment and therefore a new computation of the recoverability of the value of goodwill (and the brand name) was deemed necessary for the Half-yearly Report as at 30 June 2020, as required by IAS 36.

Definition of Cash Generating Units (CGUs)

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them.
In IAS/IFRS terminology, such business units are known as Cash Generating Units (CGUs).
Given Intesa Sanpaolo Group's business model, the CGUs are essentially the same as the operating divisions and are as follows:

- Banca dei Territori;
- Corporate and Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks;
- Bank of Alexandria;
- Pravex Bank;
- Autostrade Lombarde.

Since there were no divisional restructurings or reorganisations in the Intesa Sanpaolo Group in the first half of 2020, the CGUs indicated above are the same as those considered for the impairment test at 31 December 2019. Therefore, for more details on the rationale and considerations underlying the identification of the CGUs in the Intesa Sanpaolo Group, reference should be made to the 2019 Consolidated Financial Statements - Section 10 Intangible Assets.

Book value of the CGUs

The book value of the CGUs must be determined in a manner consistent with the criterion for estimating their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these represent the core business. In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process.
Consequently, these assets and liabilities must be properly allocated to the associated CGUs.
On this basis (so-called "equity side"), the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.
Accordingly, the carrying amount of the CGUs composed of companies belonging to a single operating division was determined by summing up the individual contributions to the balance sheet.
However, where the Parent Company or other Group companies contribute to multiple CGUs from a management standpoint, and this division is not represented in accounting information, management values must be used. In this specific case, the management driver was identified as each division's "regulatory capital", which represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules.

The table below provides the book values of the CGUs and the goodwill and brand name allocations to each updated as at 30 June 2020. The values, determined for impairment testing purposes, include the portion of goodwill attributable to minority interests (included in the last column along with the minority interests).

(millions of euro)

Values	Value as at 30.06.2020			
CGU	Book value	*of which goodwill Group share*	*of which brand name*	*of which minority interests*
Banca dei Territori	18,611	*983*	*1,507*	*60*
Corporate and Investment Banking	20,059	*56*	*-*	*75*
Insurance	5,900	*793*	*-*	*1*
Asset Management	2,655	*1,059*	*-*	*12*
Private Banking	4,732	*1,291*	*375*	*-*
International Subsidiary Banks	6,141	*-*	*-*	*86*
Bank of Alexandria (Egypt)	668	*-*	*-*	*134*
Pravex Bank (Ukraine)	61	*-*	*-*	*-*
TOTAL	**58,827**	***4,182***	***1,882***	***368***
Discontinued operations Autostrade Lombarde	123	*171*	*-*	*17*
GROUP TOTAL	**58,950**	***4,353***	***1,882***	***385***

Criteria for estimates of CGUs' value in use

The value in use of CGUs is determined by estimating the present value of future cash flows that may be expected to be generated by the CGUs. These cash flows are normally estimated by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan. The forecasting period for the analysis usually

consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity (through the use of perpetual return formulae, or, alternatively, temporary return formulae, if it is not realistic to expect the assets subject to measurement to generate positive cash flows over the long term), using an appropriate growth rate "g" for the purposes of the so-called "Terminal Value." The "g" rate is determined by assuming as growth factor the rate of increase in the gross domestic product of the countries in which the cash flows are generated.
Alternatively, the Terminal Value could be determined on the basis of a final sale or liquidation value. For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates to be used must incorporate the present market values with reference to the risk-free component and the risk premium associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles.
In addition, given the diverse risks of the respective operating areas, different Beta coefficients must be used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".
The exceptions to the approach based on the Value in Use regard the goodwill recognised on Autostrade Lombarde which was tested based on its fair value.

Cash flow estimates
Also with regard to calculation of the value in use of CGUs for impairment testing purposes for the Half-yearly Report as at 30 June 2020, the volatility of financial markets and the uncertainties regarding the future macroeconomic environment make the definition of near-term future cash flows from operating activities and the identification of growth rates in order to calculate the Terminal value of CGUs particularly complex.
The medium-term forecasting scenario of reference (for the Eurozone and Italy only, since goodwill is no longer carried in regard to the international network) has been drawn up by the Intesa Sanpaolo Research Department taking account of the forecasts of the main Italian and international organisations and institutions.
As detailed below, this scenario is only marginally different from the one outlined by the ECB and the Bank of Italy and used for credit assessment purposes as suggested by the above mentioned Authorities.
In particular, the forecasts for the period 2020-2025 are based on a scenario that is significantly influenced by the effects of the COVID-19 pandemic. Following the sharp slowdown in 2019, when trade flows adapted to the raising of trade barriers between the United States and China, the moderate recovery that had started at the end of last year was hit by the economic effects of COVID-19. The first phase was essentially confined to China and had little impact internationally. The second phase, which started at the end of February and saw the epidemic spread to Europe and the United States caused a short-lived, but extremely severe recession. According to the figures (mobility indices, confidence surveys and real monthly statistics), the minimum was reached in April 2020 when the containment measures were most widespread.
The baseline scenario assumes that in the second half of the year new epidemic outbreaks in developed countries and China will be controlled without large-scale containment measures, and that the changes in economic and social structures will enable the recovery that had already started in May and June to continue, albeit unevenly in terms of sectors and regions.
Global GDP is expected to contract by -4.1% in 2020, while international trade could fall by 7.4% at constant prices (-10.2% including services). The baseline scenario projects a global recovery driven by Asia in 2021, with trade in goods returning to pre-crisis levels by 2022 and services by 2023.
In the United States, GDP is now expected to fall by -4.7% in 2020, followed by a partial recovery in 2021 (3.5%). The drastic revision compared to September 2019 reflects COVID-19's impact on the first half of the year with a decrease of -1.3% QoQ and -9.4% QoQ, respectively in the first and second quarters. Following the rebound in the second half of 2020 and 2021, buoyed up by the massive fiscal and monetary stimulus, in 2022 average annual growth is expected to fall back below 2% to levels marginally below long-term consensus expectations. The Federal Reserve is expected to keep official rates unchanged until 2023, while the asset purchasing programmes are expected to counteract the upward pressure that a sharp rise in debt issuance could otherwise exert on medium and long-term rates. The economic scenario continues to be fraught with uncertainty as the epidemic is still largely out of control in some countries.
Until now, the economic impact of the pandemic in the Eurozone has been much greater than in the US because the contagion appeared earlier and because several governments adopted more stringent and longer-lasting containment measures than in the US. However, epidemiological data subsequently improved more rapidly and decisively. GDP fell by -3.6% QoQ in the first quarter and is estimated to have suffered a double-digit decrease in the second quarter (-12.7% QoQ). The economic recovery that began in May following the reopening of businesses and production activities following the lockdown is expected to result in a rapid but partial rise in GDP in the third (+8.3% QoQ) and fourth quarter (+3.5%). In terms of annual averages, GDP will fall by -8.3% in 2020 and then rise by 5.9% in 2021.
The recovery will also be driven by substantial fiscal stimulus in Europe: discretionary measures are presently estimated at around 4.0% of GDP in addition to the effect of automatic stabilisers. Monetary policies will also play a role (see below) in supporting the economic cycle. Growth could remain above potential even in 2022 as a result of the fiscal stimulus decided by European governments in recent months and the possible impact of the European Union's recovery plan that could be launched in the coming months. Nevertheless, GDP will not return to pre-crisis levels until early 2023. This is due to the persistent decline in demand for travel and tourism, lower foreign demand, the adverse effects on income of households as a result of fewer hours worked and self-employed workers' income, and the increased likelihood of business failures. The unemployment rate is expected to peak in the second half of this year at almost 11% of the labour force before returning below 10% in 2021. However, the peak will be higher than the minimum reached in the first quarter of 2020.
Inflation growth continued to ease in the short term as a result of the temporary collapse in oil prices during the first wave of the pandemic. The pandemic's impact on inflation is ambiguous: on the one hand, the demand shock has increased unused resources making a generalised increase in prices less likely; on the other, it is creating sector wide supply shocks that could lead to cost inflation. At the moment, the first effect is more prevalent. The projections suggest that the exact target of 2% could be unreachable for the ECB in the coming years, thereby making it possible to maintain an accommodative monetary policy.
Italy is among the Eurozone countries most affected by the COVID-19 pandemic with the fourth highest level of mortality from the virus to date after Belgium, the United Kingdom and Spain. The stress exerted on the healthcare system in some parts of the country made it necessary to impose extensive lockdown measures as early as March, well before in other European

states. The average intensity of the lockdown from March to May, based on the average difference between the collective mobility indexes, was the highest after Spain, and about twice as high as in Germany. The epidemic is currently under control with new cases growing at a lower rate than in Germany, France, Spain and Belgium. Mobility measurements indicate that 70% of the gap recorded during the period of maximum restrictions has been closed. However, Italy is among the European countries most penalised by the decrease in international tourism flows, and is one of the states with the least amount of room for fiscal manoeuvre because of its high level of public debt. Moreover, the country had already demonstrated its limited growth potential before the crisis.

In the baseline scenario, GDP dropped by almost 13% QoQ in the second quarter after -5.3% in the first quarter. The recovery that began in May and continued in June leads to a rebound of 9.5% in the third quarter fuelled primarily by the resumption in some types of consumer spending that were rendered impossible by the lockdown. The recovery then slows down for reasons similar to those described for the Eurozone. 2020 is expected to close with an annual average decrease of -9.5%. GDP growth remains above potential in 2021 (6.5%) - which also benefits from a favourable statistical comparison - and in 2022 (1.2%). As the recovery strengthens, fiscal policy should go back to focusing on debt reduction with short-term negative effects on demand. However, these could be mitigated by the launch of the EU recovery plan which is currently being debated by the European Council. GDP does not return to its pre-crisis level in the forecast horizon. Indeed, the longer-term projections (0.6%) remain anchored to a conservative estimate of potential growth. An effective use of the financial resources made available by the European Union in the coming years could lead to better results than those envisaged in the baseline scenario.

As a result, the unemployment rate peaks at 10.6% at the end of 2020 and then falls, but remains well above the lows before the pandemic (and even more so at the anomalous level recorded in the second quarter of 2020 which was distorted by a large shift workers into the pool of inactive people).

Growth projections are marginally lower than the consensus estimates for 2021-25, but above the consensus average for 2020. For comparison, the estimate provided by the government in April 2020 was -8%. In May, the European Commission published a projection of -9.5% which was then revised in July to -11.2%. The IMF, which forecast a decline of -9.1% in April, revised its projection to -12.8% in its June update. The Bank of Italy, as part of the Eurosystem forecasting exercise, published a forecast of -9.2% YoY in the baseline scenario at the beginning of June which falls to -13.1% in the "severe" scenario.

The baseline scenario assumes that no new peaks in political instability will occur in the forecast horizon. The performance of government debt, however, has an adverse impact on the risk premium: the baseline scenario implies that the debt-to-GDP ratio will be 160% at the end of 2020 and will rise again in 2022 following the projected decline in 2021. Considering the enhanced safeguards (Eurosystem purchases of public debt, ESM credit line, SURE loans and possibly the recovery fund), we expect the 2020-21 refinancing to take place without any increase in the BTP-Bund spread.

However, to take account of the numerous uncertainties in economic policy, country risk premiums are assumed to settle around the post-crisis average throughout the forecast scenario, with no improvement in the long term.

The European Central Bank has stated that it intends to keep official rates at levels no higher than the current levels until the forecast inflation has clearly neared the target level, and provided that the forecasts are also confirmed by a consistent trend in the underlying inflation. In June, none of the economists participating in the Bloomberg consensus expected any changes in official rates, either upward or downward, over the next two years.

In November 2019, the European Central Bank once again started net purchases of securities as part of the APP (Asset Purchase Programme), with a net monthly flow of 20 billion euro. The ECB announced that purchases will continue until slightly before the increase in official rates. The APP has been increased by 120 billion euro until the end of 2020 in response to the pandemic crisis. A new temporary purchase programme called PEPP was also launched. The programme, which runs until June 2021, has a maximum volume of up to 1350 billion euro and reinvests maturing principal payments from securities purchased under the programme until December 2022. The TLTRO III refinancing programme has also been made significantly more attractive through the drastic reduction in the rates applied.

Forecasts for short-term interest rates remain stable until the second quarter of 2023, with 3-month Euribor rates just below -0.4%. The exceptionally high level of surplus reserves, which is expected to continue over much of the forecast horizon, will tend to keep very short-term rates close to the ECB overnight deposit rate. The projection profile has been lowered over the entire horizon. The 2025 projection has been anchored to the historical average of interest rates from 1999-2020 which in this case has been reduced by 100bps to capture an assumed structural reduction in average real interest rates. The 2023-24 projections are therefore derived by interpolation. The level of quarterly interest rates in the baseline scenario is equal to the consensus estimates until 2021, lower in 2022 and 2023, and higher from 2024 to 2025 when the projection is driven by the return to the average rule. Implicit rates in futures are currently lower than projected until the end of 2025. The positive spread between long-term projections, consensus and implicit rates in futures is explained by the fact that the projection implicitly assumes normalisation (albeit at lower levels than in the pre-crisis period), while consensus and futures are very volatile and are currently floating between a number of different scenarios - including some that are projecting rates remaining at their current levels over the entire horizon - and are more affected by monetary policy expectations and expected growth and inflation performance.

Estimates for the medium and long-term interest rate curve have been lowered further over the forecast horizon. Five-year swap rates rise back above zero starting in 2023, while ten-year swap rates turn positive again in 2021. The interest rate curve gets steeper starting in 2021.

With regard to the credit market, unlike other crises, there has not been a supply shock, thanks to the ECB’s measures to support liquidity and longer-term funding, as well as initiatives by supervisory and regulatory authorities to enable banks to support credit and absorb the losses that will arise.

Supply conditions over the time horizon of the scenario are still favourable overall, despite increased prudence on the part of banks in view of the foreseeable deterioration in credit quality, partly mitigated by the support policies put in place. The demand shock has had contrasting effects, negative for loans to households, which have slowed down significantly, and positive for loans to businesses, whose trend has reversed, climbing back up again from March.

The current trend in loans to businesses is due to several factors: immediate liquidity needs during the lockdown; the collapse in fixed investment needs; and exceptional credit support measures through public guarantees. The result has been a return

of considerable demand from businesses. After having overcome the initial difficulties in starting up the guaranteed loans, the huge volume of applications boosted lending which is expected to continue throughout 2020. The moratoria also contributed to the stock of loans. After an initial and temporary rebound in short-term loans, linked to immediate liquidity needs, the gradual implementation of public guarantee transactions generated a recovery in medium/long-term lending which is expected to continue at a double-digit rate until the end of 2020.
When liquidity and lending support packages are discontinued, the strong rebound in 2020 will be followed by period of adjustment in corporate lending in 2021 notwithstanding the recovery in GDP and investments in particular. The trend in 2021 will be affected by anticipated demand for loans before the end of 2020. From 2022 onwards, growth will be moderate and more consistent with the trend in GDP. The increase in indebtedness that occurred in 2020 will have to be countered as early as 2021 with measures to strengthen the capital structure along with a return to funding from market sources, limiting the use of bank credit.
The strong growth in loans to households slowed down from March, particularly for consumer credit due to the steep decline in spending on durable goods. After the double-digit growth in the final part of 2019 and the first two months of 2020, mortgage lending declined in March and April before rising again in May, mainly due to renegotiations and presumably to the signing of new loans that had been stalled due to the lockdown. The forecasts for mortgages for the rest of the year reflect the scenario for the residential real estate sector, which envisages a decline in sales and house prices. More generally, the weakening of household lending in 2020 is being weighed down by the reduction in disposable income, uncertainty and the resulting increase in precautionary savings, which are holding back spending decisions. On the other hand, interest rates are still very low and the supply from banks has not been restricted for lending to households. A recovery in household lending is expected in 2021 and will continue at a moderate pace in the years thereafter, thanks to negative key interest rates until 2023 and very low rates in the two-year period 2024-25. Also, mortgage growth will be aided by a gradual rise in house prices from 2022, while the relaxed tone in the supply of bank credit to households will continue over the coming years.
With regard to bank funding, in contrast to loans, the effects of the pandemic strengthened the trends underway prior to the onset of the crisis. In particular, current accounts, which had already been very lively for over seven years, gained even more momentum, growing by more than 9% YoY in May. The strong performance of the on-demand component led to a significant increase in overall deposits and customer deposits, despite the sharp decline in the bond component.
The increase in deposits in this phase is driven by several factors: On the one hand, the climate of uncertainty and risk aversion, which resulted in a strong preference for liquidity, combined with a fall in consumption and an increase in appetite for saving. On the other hand, balances on company accounts were fuelled by the increase in bank debts resulting from access to temporary liquidity and credit support measures. In fact, there was strong growth in deposits from non-financial companies, which in May saw a record inflow of 22.9 billion euro in just one month and a change of 19% year-on-year. For the reasons mentioned above, the trend in current accounts is expected to remain buoyant for the rest of 2020. The growth in current accounts will continue in 2021 and the following years, given the very low or negative market yields, abundant liquidity and the likelihood that the climate of uncertainty will persist. However, the pace will be much more moderate than in 2020 and gradually decelerating. Overall, deposits are expected to grow over the entire forecast period.
Bonds fell sharply from March onwards due to the reduced need for medium to long-term funding thanks to the substantial liquidity made available by the ECB and as a result of the adverse market conditions. Growth in bonds will not return until late 2021 but will be modest over the entire scenario horizon. More favourable financial conditions may return to support issues on the wholesale market, fuelled by the placement of eligible instruments that meet the requirements of loss absorption, in a scenario of modest growth in medium/long-term loans. Customer deposits will record moderate growth on the whole.
Average rates on new loans to businesses fell slightly in the first half of 2020. Unlike in the past, this trend was driven by the rates charged on new loans for smaller amounts (up to 1 million), particularly from March. Interest rates on mortgage loans to households also reached new lows, especially on fixed-rate mortgages, which even fell below floating rates from April.
Deposit rates fell slightly, with small decreases for current accounts, due to the low levels reached. In April, even rates on new time deposits for households fell after four months of significant increases for deposits of up to 1 year due to the attractive offers from some intermediaries. The overall cost of customer deposits continued its decline. The spread between lending and funding rates narrowed slightly.
With negative key interest rates until 2023 and favourable conditions for accessing credit, interest rates on loans will remain very low in 2020 and in the following years. The policy measures implemented to support lending will help to keep lending rates down despite the likely increase in credit risk. In addition, competition on loans to the best customers will continue. A modest rise in lending rates will follow the rise in monetary and policy interest rates assumed in 2023-25.
The large inflow to current accounts and the substantial contribution of the TLTRO III, both in terms of negative rates and large volumes, will allow the cost of funding to be contained again in 2020 and the following years. Current account rates are expected to remain at record lows, with some possible slight decreases, without dropping below zero. Based on the approach taken for monetary and policy rates, a small rise in interest rates on deposits should be visible only in 2023.
The spread between lending and funding rates is expected to narrow slightly in 2020 compared to 2019, and again in 2021. The renewed growth of lending rates, along with the slower pace of adjustments to borrowing rates will allow for a slight widening of the spread only in the period from 2023-25. Nonetheless, unit profitability of dealing will remain very low over the entire horizon, even lower than the values seen in 2007-08.
Like in the previous eight years, in the first part of 2020 the mark-down on on-demand deposits was in negative territory, where it is expected to remain until 2023, given the very low Euribor rates. A gradual improvement in the trend should start only in 2024, in line with the expected profile of the Euribor. The mark-up on short-term rates is expected to be substantially stable in the remainder of 2020 and the following two years, and to be slightly lower than in the first part of the year. A more evident reduction in the mark-up will take place in 2023-25 when market rates start to rise.

The mutual fund industry experienced net outflows in the first quarter of 2020 which suddenly intensified in March following the collapse of the stock market indices triggered by the negative impact of the COVID-19 pandemic on the world economy. However, in the two months from April to May, there was a significant recovery in net inflows, particularly into the equity segment. Inflows for portfolio management schemes were very resilient. In these circumstances, life insurance recorded a decrease in overall new business, partly due to the reduction in activity from the distribution channels as a result of the measures put in place to contain the COVID-19 epidemic.

The mutual fund segment is expected to be resilient for the remainder of 2020 as demonstrated at the very worst stage of the crisis. Mutual fund inflows are expected to be slightly negative for the year as a whole due to high volatility in the financial markets which is expected to continue until the end of the year, as well as the clear preference for liquidity during the period given the high degree of uncertainty that remains regarding the economy and public health. On the other hand, positive flows, albeit modest, are expected to be channelled into portfolio management.
As regards the life insurance sector, a gradual recovery is expected in the second half of the year. However, the year as a whole will close with a decline in both traditional and unit-linked policy subscriptions. It will be the latter that will be most affected because of their high financial component.
Flows to mutual funds and portfolio management schemes are expected to pick up again in 2021, helped by several factors such as the expectation that the market indices will perform well and the relaunch of Individual Savings Plans products which already began in 2020.
The recovery will also involve the life insurance sector. More specifically, the likelihood of an internal shift is confirmed, with greater premium growth from unit-linked policies than traditional policies, as was expected in the scenario prior to the COVID-19 crisis.
The framework of interest rates that should remain low for the long-term will continue to favour the asset management and life insurance businesses even for the years following, from 2022-25. Inflows of investments to these segments may be fuelled by the stock of significant capital inflows to bank deposits in past years and in 2020. Based on these factors that characterise the medium-term scenario, the strategy of diversifying revenues implemented by banks in response to the erosion of the profitability of traditional dealing activities due to the low level of interest rates should continue. The revision of the business model undertaken by Italian banks has had distinctive results in terms of the shift in revenues in favour of those from services which decrease vulnerability to the continuing situation of very low interest rates as compared to intermediaries of other European systems.
The table below illustrates the macroeconomic variables expected for Italy in the period 2020-2025.

(values as a percentage)

Italy	2019	2020	2021	2022	2023	2024	2025
REAL ECONOMY							
Real GDP Italy	0.3	-9.5	6.5	1.2	0.6	0.6	0.6
Consumer prices Italy	0.6	0.00	0.4	1.1	1.1	1.3	1.3
Period-end ECB rate	0.00	0.00	0.00	0.00	0.25	1.00	1.25
3-month Euribor rate	-0.36	-0.37	-0.42	-0.41	-0.21	0.42	0.78
10-year IRS	0.3	-0.1	0.1	0.2	0.7	1.5	1.8
10-year BTP	1.89	1.58	1.64	2.05	2.54	3.32	3.64
Spread vs. Bund (basis points)	212	187	183	181	181	182	183
BANKING SECTOR							
Loans	-1.7	1.4	1.9	1.4	2.0	2.1	2.4
Direct customer deposits	3.0	4.1	3.2	3.2	3.1	3.0	2.7
Loan rate	2.55	2.42	2.37	2.37	2.47	2.86	3.10
Funding rate	0.63	0.55	0.51	0.51	0.56	0.75	0.87
Average customer spread	1.92	1.87	1.86	1.86	1.90	2.11	2.23
Mutual funds	11.7	-2.4	6.1	3.6	2.5	1.9	1.7
Portfolio management	11.5	-1.1	4.4	2.6	1.9	1.7	1.3
Life technical reserves	8.5	1.3	5.0	4.5	4.3	4.2	3.8

The various CGUs' expected cash flows were subject to impairment testing, taking account of the macroeconomic scenario described above, and were estimated by following a two-stage assessment process.
In this case, forecasting estimates were used based on the actual figures as at 30 June 2020 and the budget figures for the second half of 2020, which have been updated to consider the impacts of the pandemic, and considering the expectations described above regarding the evolution of the macroeconomic scenario. The forecast estimates cover a period that extends from the second half of 2020 until 2024. For the years 2020 and 2021, they take into account the information communicated by Intesa Sanpaolo on 5 May 2020 referencing the quantitative targets of the 2018-2021 Business Plan in which the net income forecast for 2021 is estimated to be no less than 3.5 billion euro, while forecast result for 2020, including the expected net capital gain on Nexi, is estimated to be no less than 3 billion euro. For the following years up to 2024, future flows were determined through inertial tracking of the flows for 2021, without considering the effect of new managerial leverages, and based on the forecasts relating to the macroeconomic scenario as resulting from the July 2020 update of the "Long-term macroeconomic and banking estimates" released by the Research Department for the period 2020-2025.
The estimated cash flows, supported by the recovery in commission income, include a recovery in operating income as early as 2021, a year in which the cost of risk will still be higher than before the public health emergency. In the years that follow, income growth, combined with the containment in operating costs and the gradual reduction in the cost of risk, is expected to bring about a significant improvement in profitability. This is consistent with the macroeconomic scenario outlined above which sees a return to positive rates and stable growth, albeit moderate, for Italy from the beginning of 2024.
The net income projected for the forecast years until 2024 has been adjusted, in accordance with IAS 36, to consider non-monetary components and the minority-interest share of net income. It also excludes the effects of any reorganisation and

restructuring transactions, except for the effects of the actions already considered in the 2018-2021 Business Plan, and the capital gains on future sales of company assets. However obvious, and in line with the provisions of IAS 36 which requires the effects of future acquisitions to be excluded from the impairment test, prospective cash flows do not include the expected effects of the merger with UBI Banca. In addition, cash flows include those allocated to the various CGUs deriving from central corporate assets. In accordance with the equity-side approach mentioned above in relation to the determination of the carrying values of CGUs, the cash flows used for impairment testing include the flows correlated with financial assets and liabilities, given that these represent the company's core business.

Among various financial valuation techniques, such as that used for determining the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate “g” rate, of the cash flow achievable "at full capacity”. This rate, even if subject to time variations, may be assumed to be constant or decreasing (or increasing in rarer circumstances).
As an alternative to the terminal value estimation methodology, doctrine also envisages (i) the exit multiple approach and (ii) the approach based on an estimation of the liquidation value of the company. Specifically, with regard to approach (i) it should be mentioned that an exit multiple estimate has complex elements that become even more marked at times of market uncertainty and volatility such as now. Approach (ii) is valid only for companies due to be wound up on termination of the forecasting period, and therefore not applicable with a view to a business as a going concern.
In the decisions to be taken with regard to the criteria for extrapolating cash flows beyond the forecasting period, account must be taken of the market context in which the prospective scenario is being determined.
As regards the impairment test as at 30 June 2020, 2024 - the last year of the analytical forecast, separating out the main non-recurring components and adjusted to take into account the normalisation of interest rates - was projected in perpetuity, based on the growth factors described below, for the purposes of the terminal value.
Specifically, considering that the baseline scenario assumes that interest rates will return to normal only in 2025, albeit 100 bps lower than the 1999-2020 historical average, the Terminal Value cash flow was determined based on the cash flow forecast for 2024 (the last year of analytical forecasting). It was then adjusted, as this is a cash flow to be projected into perpetuity, to exclude the cost components linked to ordinary and extraordinary contributions to the DGS or Interbank Deposit Guarantee Fund, and to consider the average Euribor forecast for 2025 instead of the estimated value for 2024 which still does not fully reflect the expected dynamics with regard to interest rates.
In line with the impairment tests of the previous years, the “g” rate was determined as the average growth rate of Italy’s nominal GDP, observed and forecast in the 2008-2025 period (it should be noted that, in consideration of the impairment made in the previous financial statements, no goodwill is allocated to the International Subsidiary Banks, Bank of Alexandria and Pravex Bank CGUs; consequently, it is not necessary to calculate the “g” rate for the purpose of the goodwill test for the foreign countries where the Group operates). Nominal GDP is the sum of the real GDP growth rate and the inflation rate. Expected real GDP and inflation figures used to calculate the "g" rate were drawn from the forecasts prepared by the Intesa Sanpaolo Research Department described above. Each component has been calculated as the average for the period 2008-2025.
The decision made in terms of observation period for the growth rates, considering the current particular macroeconomic situation, calls for specific consideration.
Real GDP dynamics in recent years were negative or only marginally positive due to the economic-financial crisis. A turnaround in the macroeconomic crisis has been underway since 2015 with a recovery, albeit a rather weak one, in growth. This growth, with the exception of 2020 which was greatly affected by the COVID-19 health emergency, has been confirmed by the latest update of the macroeconomic forecasts provided by the Research Department.
In order to take into account both crisis periods of the last decade and the expected effects of the pandemic, including the prospects of an economic recovery beginning in 2021, the growth rate for estimating terminal value was calculated as the average GDP rates for the 2008-2025 period, inasmuch as this period was deemed sufficiently extensive to include, and thus average, a period of severe crisis and a prospective period of a return to a scenario of (moderate) economic growth, while still taking into account the impact of the public health crisis in 2020. In short, the reference period follows a prudent approach as it considers the start of the financial crisis in 2008 on the one hand, and the expectation of moderate economic growth until 2024 on the other. Please note that Italy presents a negative value for its average real growth rate for the period 2008-2025. The forecasting estimates for the next few years show moderate growth in real terms, leading to slightly negative average growth for the period 2008-2025. Since the "g" rate is used to determine terminal value, it was considered realistic and rational not to assume negative real growth to be projected infinitely. Accordingly, for calculation purposes, real average growth was assumed to be zero and the "g" rate thus corresponded with the average increase in inflation for the period 2008-2025.
Furthermore, with a prudential approach, it was verified that the “g” rate, equal to 1.17%, was not higher than Italy’s GDP growth rate in 2025 or, for each CGU, the growth rate of the last year of analytical forecasting.

Cash flow discounting rates
For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present market valuations, the time value of money and the asset’s specific risks.
In practice, the first characteristic (current market conditions) translates into the calculation of all parameters based on the latest available information as at the reference date of the estimate, so as to best take into account the current market assessments. The second characteristic (consistency between risks/flows and rates) must follow the specificity of flows used for impairment testing of the CGUs. This rate (in its various components) must therefore be decided by observing the specific nature of flows used to assess each CGU, in order to maintain coherence and consistency with the flows. Specifically, consistency becomes important with regard to inflation, country risk and other risk factors that, according to IAS 36, may be expressed in the flows or rate. It is important to point out that a characteristic common to all CGUs recording goodwill (and, in general, intangibles with an indefinite life) is the long-term perspective of flows used to estimate the CGU’s value in use. In fact, by its very nature, goodwill has an indefinite useful life, and therefore future cash flows are normally infinitely projectable.
This long-term perspective should be reflected in all discounting rate benchmarks by means of the appropriate selection of each, in such a way that they express normalised conditions in the long term. The discounting rate should normally include

the cost of the various sources of funding of the asset to be assessed, in other words the equity cost and debt cost (i.e. WACC, weighted average capital cost).
However, in the case of a banking entity, it is estimated according to an equity-side approach, that is to say by considering only the cost of equity capital (Ke), in a manner consistent with the methods for determining cash flows, which, as stated above, include those deriving from financial assets and liabilities.
The cost of capital is determined using the Capital Asset Pricing Model (CAPM). Based on this model, the cost of capital is calculated as the sum of risk-free rate and a risk premium, in turn dependent on the specific risks implicit in the business activities (i.e. both business segment risk and country risk).
The cost of capital is determined net of taxes, in order to ensure consistency with the discounted cash flows.
As the various CGUs of the Intesa Sanpaolo Group operate in different business segments and with different risk factors, the specific costs of capital of each CGU were identified.
It should be noted that, since cash flows were determined in nominal terms, discounting rates were also determined in nominal terms, meaning that they incorporate inflation expectations.

Entering into the details of the various components that contribute to the determination of discounting rates, it may be remarked that:

- in regard to the risk-free component, reference was made to the current extremely low values with respect to the general interest rate scenario. In fact, since interest rates are not expected to turn positive until 2024, it is appropriate to reflect on whether the current situation may or may not reasonably be expected to last beyond the so-called “explicit period” of forecasting of the financial flows for the assessments regarding the impairment tests. In fact, as is common knowledge, terminal value, calculated as the perpetual return of cash flows "at full capacity" after the forecast period, is an important component to calculate the value of the CGUs: in this sense the reflection must focus on the analysis of the current macroeconomic context, to check whether the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated in the discount rate of the flow implied in the terminal value, according to a long-term calculation logic, such as the one underlying the impairment test process. Based on the situation described above, it is unlikely that the currently low level of interest rates (especially in the risk-free component) which have been significantly affected by the monetary policies of the ECB will persist beyond the medium term. Therefore, considering the aforementioned long-term forecast that must guide the impairment test, for the 2020 Half-yearly Report it was deemed appropriate to adopt a very prudent approach involving the use of differentiated discount rates for the discounting the cash flows of the CGUs which is consistent with the approach used for the previous Financial Statements and is permitted by IAS 36. Specifically:
  - concerning the risk-free component included in the cash flow discounting rate of the explicit forecast horizon, a decision was made to use the average monthly return (June 2020) of the 10-year German government bonds (Bund);
  - concerning the risk-free component included in the cash flow discounting rate of the terminal value (cash flow projectable beyond the explicit forecast period), a decision was made to use the average annual return of 10-year German government bonds (Bund) forecast for 2025 by the Intesa Sanpaolo Research Department. For these interest rates, those forecasts estimate an increase in 2025 of over 220 bps compared to the current figures, therefore making it possible to make a projection into perpetuity for the purpose of the terminal value, according to the long-term logic underlying the impairment test.

  In line with the above, also for the CRP a methodology was considered that envisages the use of differentiated values. In addition, it should be noted that there is no goodwill allocated to CGUs other than those (mainly) operating in Italy - the “country risk” essentially coincides with the “Italy risk”. Therefore, in the methodological choices for the impairment test of goodwill for the purpose of the 2020 Half-yearly Report, the CRP was calculated as follows:
  - concerning the CRP included in the financial flow discounting rate of the explicit forecast horizon, the average BTP-Bund spread of June 2020 was considered;
  - concerning the CRP included in the cash flow discounting rate of the financial flows of the terminal value, the average annual 10-year BTP-Bund spread forecast for 2025 was considered, based on the medium-term forecast scenario provided by the Research Department of Intesa Sanpaolo.

  It should be noted that the approach of maintaining two different rates for analytical flows and Terminal Value is extremely prudent since the Research Department's prospective growth forecasts for the risk-free rate are not matched by a corresponding reduction in the Italian spread. Therefore, the Terminal Value discount rate, which incorporates the expected return on Italian government bonds in 2025, is more than 220 bps higher than the corresponding parameters that result from incorporating the current market conditions at 30 June 2020, which is the reference date of this impairment test;
- the equity risk premium – represented by the difference between stock market yield and the Return on Investment on risk-free securities determined in reference to a sufficiently wide time horizon – was calculated on the basis of historical data, given its higher degree of reliability and visibility and also in the light of the current macroeconomic context, which reflects particularly volatile stock market prices not always representative of economic “fundamentals,” while also creating a framework of uncertainty within which it is difficult to formulate reliable forecasts of results in order to estimate the equity risk premium implicit in stock market quotations. Specifically, the geometric mean for the equity risk premium was used, recorded on the US market for the period 1928-2019, adjusted for the differential between the US inflation rate and the German inflation rate (the market used as the basis for risk-free calculation);
- the Beta coefficient, which measures the specific degree of risk of an individual company or business sector, was calculated by identifying a sample of companies, comparable in business terms, for each CGU, and with reference to this sample the average or median Beta figure used was that recorded on a monthly basis over a five-year period.

Summary of growth rates and discounting rates used
The following table presents a summary, for each CGU subject to impairment test, of the parameters relevant to determining value in use: weighted average 2019-2024 growth rates, the "g” growth rates for terminal value purposes, the various discounting rates and inflation rates.

RATES/PARAMETERS CGU	Nominal growth rates for impairment test (2019-2024)	NOMINAL DISCOUNTING RATES				LONG-TERM "G" GROWTH RATES		INFLATION RATES
		2020 flows	2020 Terminal Value	2019 flows	2019 Terminal Value	2020	2019	2020
CGU subject to impairment test								
Banca dei Territori	46.68%	7.80%	10.03%	8.58%	10.57%	1.17%	1.32%	1.17%
Corporate and Investment Banking	8.34%	7.40%	9.64%	7.15%	9.14%	1.17%	1.32%	1.17%
Insurance	13.32%	6.65%	8.89%	6.21%	8.20%	1.17%	1.32%	1.17%
Asset Management	-1.95%	7.00%	9.23%	6.97%	8.96%	1.17%	1.32%	1.17%
Private Banking	4.06%	7.57%	9.80%	7.14%	9.13%	1.17%	1.32%	1.17%
Autostrade Lombarde (1)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

(1) For the purpose of impairment testing the goodwill allocated to the Autostrade Lombarde CGU, reference was made to the fair value, not the value in use.

Impairment testing results

The outcomes of the impairment test showed how, as at 30 June 2020, the values in use (or the fair value for Autostrade Lombarde) of each of the CGUs that feature intangible assets with an indefinite life were higher than the respective book values. Thus, it was not necessary to proceed to any impairment of the goodwill or brand names allocated.
It is specified that, for the sake of completeness of the analysis, the value in use was calculated also for the CGUs to which intangible assets with an indefinite life are no longer allocated, as they are written down in the previous financial statements. The Group's total value in use was confirmed to be greater than the sum of the carrying amounts of the individual CGUs.

Based on its market valuation, the Group's value in use is higher than its market capitalisation. The Intesa Sanpaolo share price on 30 June 2020 (1.70 euro), dropped sharply from the price quoted at the end of 2019 (approximately -27.5%) due to the overall performance of the financial markets following the outbreak of the COVID-19 epidemic. The performance of Intesa Sanpaolo shares during the first half of 2020 was negative but in line with the Italian sector index (FTSE It All-Shr Banks), while underperforming the Borsa Italiana benchmark index (FTSE MIB Index -17.6%). Intesa Sanpaolo shares still outperformed the Stoxx 600 Banks index, which has fallen by 34.3% since the beginning of the year. After 30 June 2020, the Intesa Sanpaolo share price remained substantially stable and stood at 1.73 euro at as 31 July 2020.
The first half of 2020, following the sharp slowdown in 2019, when trade flows adapted to the increase in trade barriers between the US and China, experienced a particularly complex and volatile scenario following the outbreak of the COVID-19 pandemic which had initially been limited to China and then spread to Europe and the United States at the end of February.
In the first part of 2020, especially between the end of February and mid-March, the equity markets fell sharply while volatility surged to very high levels. Since April, share prices have partially recovered the losses recorded in the most severe phase of the pandemic, benefiting from a greater propensity of investors to take risks, aided by the significant expansionary measures implemented by the monetary and fiscal authorities and the gradual easing of restrictions. Moreover, bank securities have been pricing the ECB's recommendations on earnings distribution in their market capitalisation.
Financial analysts' valuations, which are based on short-term outlooks, saw a decrease in average target prices during the first part of 2020 which were nevertheless higher than the share price quoted at the end of the first half of the year. Looking at the analysts' data up to July 2020, the average target price was about 2 euro per share, a decrease of 17% compared to the figure recorded between December 2019 and January 2020 (2.39 euro per share).
Analysts underscore the strengths of the Intesa Sanpaolo brand and its highly qualified management which is valued by the market. Intesa Sanpaolo also continues to stand out for its strong capital structure, credit quality and good profitability. According to some analysts, the bank has continued to perform very well over the last few years, even in the wake of the global financial crisis. Moreover, thanks to its solid capital structure and sound internal organisation, it will continue along this path, even considering the current challenges arising from the public health crisis that exploded in 2020. Among the elements that may give rise to specific risks, the analysts, in addition to considering the effects of the COVID-19 pandemic, also consider a possible deterioration in the sovereign risk on Italian securities that could lead to an increase in the Cost of Equity with an impact on the bank's capital. Moreover, the deteriorating state of the Italian economy, exacerbated by the epidemiological crisis, could lead to a drop in volumes in the Corporate and Investment Banking Division and the retail business as well as a deterioration in credit quality. Some analysts also believe that in light of the current environment and the ECB's recommendations, the policy on dividend distributions could be scaled back in terms of expectations and that more stringent regulations could be imposed on the banking industry.
In any event, it bears observing that valuations expressed by financial analysts have different characteristics from the “fundamental” assessment represented by value in use.
The following may be observed regarding the valuations expressed by financial analysts:
- the prospective income flows forecast by analysts extend to 2022 and, compared to the estimates generated within the Group, are lower on average;
- the cost of the capital used (in not particularly frequent cases, where this parameter is explicitly stated) is often determined in overall terms at Group level; the cost of capital of Intesa Sanpaolo used to discounting the terminal value cash flows falls within the range identified by the analysts;
- similarly to the observations made for the impairment test of the 2019 Financial Statements, from the methodological standpoint, use was often made of multiples (in terms of P/E or ROE) applied to current market quotations or expected profitability for the coming years; these are thus methods that provide a fair value, rather than a long-term value in use.

It bears observing that the valuations in question were intended for financial investors and thus aimed to determine prices and values in the short term. These valuations represent the value potentially obtainable from sale on the market of limited amounts of securities, i.e. the disposal of a minority interest, and are therefore closely pegged to prices and to current market conditions. Conversely, the value in use is based on the consideration that the value of an asset is a direct expression of the cash flows it is able to generate throughout the period of its use. This value is thus also based on the internal expectations of the company, as opposed to market valuations, which are instead based on the short-term expectations of the market itself.
In this regard, it is important to reiterate the conceptual difference between the value deriving from stock exchange quotations or valuations tied to current market prices - which aim to establish the "target value" of a security over a short forecast period - and the Value in Use, which instead represents the "core" value of an investment made with the intention increasing its future value, rather than reselling it on the market in the short term. This value therefore depends mainly on the implementation of a development plan rather than the fluctuation in market prices and therefore has a different and obviously longer time perspective. Conditions in the financial markets and the real economy may in certain circumstances lead to significant disparities between the two families of values. In fact, in extremely depressed scenarios like the current one following the explosion of the pandemic, market values tend to provide values lower than the values in use (obviously for companies without business continuity problems and that have growth prospects) because they are strongly linked to current results and prices. Conversely, in situations of strong growth, market values tend to provide higher values than the values in use for the same reasons.
As regards the difference between recoverable amounts and book values, it should be noted that in recent years the Group has sold businesses or equity investments that have generated significant gains from disposal, confirming the existence of hidden value within the Group that are not reflected in the book values but are recognised in transactions with third parties at market conditions. Moreover, the resilient and well diversified business model, which focuses on the product factories where a large part of the difference in book values is concentrated, guarantees a primary source of income for the Group even in adverse conditions solely in relation to the scenario of the banking sector.

Finally, it is believed that impairment tests must be performed with the awareness of the fact that the current public health emergency could have an impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group’s primary sources of income and competitive edges, as has also been demonstrated by the results of the past few years in which forecast targets have consistently been achieved. In consideration of such factors, Value in Use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.
Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre. Moreover, the final figures for the last few years have been substantially in line with forecast figures;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU in relation to the different levels of risk of the respective businesses, with the various risk factors also be determined analytically. Furthermore, the cost of capital used for the terminal value considers the effects of a return to “normalised” conditions of the general context of interest rates and considers risk-free rates of over 220 bps higher overall than the current June values used to discount cash flows in the explicit forecast period;
- for the purpose of terminal value, the “g” growth rate for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

The parameters and information used to test the recoverability of intangible assets with indefinite useful life are significantly influenced by the macroeconomic environment and financial market trends, which might undergo changes that cannot be predicted at the present time. If, in the future, the macroeconomic scenario should deteriorate with respect to the assumptions, this would have effects on the various CGUs’ estimated cash flows and on the main assumptions adopted, which could yield results in future reports that are different from those outlined in this Report. In this regard, it should be noted that the assumptions adopted for this impairment test, despite being largely in line with the estimates published by the ECB and the Bank of Italy, have been formulated in an environment marked by extreme uncertainty, particularly in relation to the implications of the public health emergency on production activities and possible future outbreaks of the disease.

Sensitivity analyses
Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out, as required by the IAS/IFRS. These analyses are even more important given the extremely high-level of forecasting uncertainty particularly regarding the extent and duration of the negative effects of the COVID-19 pandemic, and the effects associated with the economic recovery that is likely to follow. In this regard, considering alternative scenarios and stress factors in the main valuation and macro-economic variables make it possible to evaluate the impact on the impairment test results related to the contingent uncertainty, which, among other things, makes it particularly difficult to make forecast estimates.

For CGUs that present residual values of intangibles with indefinite useful lives, the impact on the value in use of an increase of up to 50 bps in discount rates or a decrease of up to 50 bps in the growth rate for terminal value purposes was verified. No events of impairment would emerge in any of the CGUs tested, even in the event of an increase of 50 bps in the discount rates, or a similar decrease in the “g” rate. This last assumption is considered unlikely given the extremely low value of the “g” rate (just over 1%) used for this impairment test.

The table below illustrates the sensitivity (in percentage terms) of the value in use of the CGUs that present residual intangible assets with indefinite useful lives to changes in the “g” rate or discounting rate of -/+10 basis points, as well as a reduction in the cash flows used for terminal value purposes of 10%.

Sensitivity CGU	CHANGE IN VALUE IN USE Sensitivity to growth rate "g" - 10 bps	Sensitivity to discount rate + 10 bps	Sensitivity to Terminal value cash flows - 10%
Banca dei Territori	-0.99%	-1.23%	-11.91%
Corporate and Investment Banking	-0.89%	-1.13%	-12.17%
Insurance	-1.00%	-1.25%	-4.94%
Asset Management	-0.92%	-1.15%	-5.32%
Private Banking	-0.89%	-1.13%	-5.96%
Autostrade Lombarde (1)	n.a.	n.a.	n.a.

(1) The recoverable amount of the Autostrade Lombarde CGU was not determined based on its value in use, rather on the fair value of the company determined on the basis of the price of sale of the equity investment indicated in the purchase and sale agreement signed with Aleàtica S.A.U. on 26 June 2020.

Based on the table above, changes in discount rates (increasing) or growth rates (decreasing) within 10 bps would lead to a general decrease in the values in use ranging between 0.89% and 1.25%. Regarding the cash flows considered for the purpose of the terminal value, a 10% decrease of the same would lead to reductions in the values in use ranging between 4.94% and 12.17% which for the Banca dei Territori alone would lead to a minor impairment of approximately 50 million euro which is 0.3% of the CGU's book value.

Still considering stress testing, analyses were performed with the aim of determining the limits for the main inputs, beyond which impairment testing of the CGUs would require the recognition of impairment. The following table presents the “g” growth rates and discounting rates for each CGU that would result in a value in use in line with its carrying amounts, assuming equal cash flows to be discounted.

Sensitivity CGU	"g" growth rate	Difference compared to the "g" rate used	TV discounting rate	Difference compared to the Ke discounting rate used
Banca dei Territori	0.30%	-87 bps	10.73%	70 bps
Corporate e Investment Banking	-4.75%	-592 bps	14.17%	453 bps
Insurance	-9.09%	-1,025 bps	16.45%	757 bps
Asset Management	-18.46%	-1,962 bps	22.72%	1,349 bps
Private Banking	-39.08%	-4,025 bps	35.83%	2,603 bps
Autostrade Lombarde (1)	n.a	n.a	n.a	n.a

(1) The recoverable amount of the Autostrade Lombarde CGU was not determined based on its value in use, rather on the fair value of the company determined on the basis of the price of sale of the equity investment indicated in the purchase and sale agreement signed with Aleàtica S.A.U. on 26 June 2020.

In order to take into account the key variables from the alternative scenarios with respect to the base scenario used for this impairment test, the projected cash flows of the CGUs have been estimated based on the elements resulting from the worst case scenarios, which extend until 2022, provided in early June 2020 by the ECB with reference to the Eurozone and the Bank of Italy for Italy so that the supervised entities would have a common and homogeneous basis for estimating the forward looking elements in the calculation of the ECL under IFRS 9.
More specifically, the ECB's worst-case scenario predicts a 12.6% fall in GDP for the Eurozone in 2020 followed by a rebound of 3.3% and 3.8% respectively in 2021 and 2022. The Bank of Italy's worst-case scenario predicts a more dramatic drop in Italy's GDP of 13.1% in 2020, followed by a rebound of 3.5% in 2021 and 2.7% in 2022.
The inclusion of these scenarios when estimating future cash flows of the CGUs would be mainly reflected in an increase in adjustments to the Group’s loans. This stress situation, which would not result in impairment losses for any CGU, assumes the cost of risk will return to normal in the projected cash flows for estimating the Terminal Value, considering that the principal macroeconomic parameters from 2023 onwards would be aligned in both the scenario assumed before the spread of the COVID-19 pandemic and the scenario updated for the health emergency and considered for the purposes of this impairment test.

Also, the effects on the recoverable amount of the CGUs have been estimated should a Euribor rate about 15 bps lower than the one used be considered in the Terminal Value flow. This is equivalent to incorporating the estimated Euribor rate at the end of 2024 into the Terminal Value instead of the average estimated rate for 2025. Even under this scenario, no impairment losses would result for any CGU.

A sensitivity exercise was also carried out on the cash flow projection. This exercise considered a period of only 3.5 years, starting from the 2nd half of 2020 until 2023, plus the Terminal Value by compounding the 2023 cash flows at the g rate which was considered gross of the DGS/Interbank Deposit Guarantee Fund contributions and adjusted to take into account of the Euribor at the end of the year (which is still marginally negative). As regards the discount rate, a cost of capital at current rates equal to the rate used to discount the cash flows for the explicit period was also considered in the Terminal Value. Even under this scenario, no impairment losses would result for any CGU.

INFORMATION ON TAX ASSETS

Probability test on deferred tax assets

IAS 12 requires for tax assets and liabilities to be recognised according to the following criteria:
- a deferred tax liability must be recognised, as a general rule, for all taxable temporary differences;
- a deferred tax asset must be recognised for all deductible temporary differences to the extent that it is probable that taxable income will be earned that can offset the deductible temporary differences. Deferred tax assets not recognised in the past - inasmuch as the conditions for their recognition were not met - must be recognised during the year in which those conditions arise.

The book value of deferred tax assets must therefore be tested to determine whether it is likely that taxable income will be earned in the future that will ensure their recovery (probability test).
For the Intesa Sanpaolo Group, the probability test on the deferred tax assets recorded in the consolidated financial statements as at 31 December 2019 was performed analytically, having separately considered - because of the different conditions of use of the underlying temporary differences - the following cases:
1. deferred tax assets recognised for the tax losses of Veneto Banca, Banca Popolare di Vicenza ("former Venetian Banks") and their subsidiaries Banca Nuova and Banca Apulia, as well as, only for the purposes of additional IRES, Intesa Sanpaolo and the banks incorporated into Intesa Sanpaolo. These deferred tax assets can be used only on an individual basis by Intesa Sanpaolo;
2. deferred tax assets recognised for tax losses of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI);
3. other deferred tax assets triggered by deductible temporary differences for IRES tax purposes, arising at the Group's Italian companies, on the assumption that these companies almost fully participate in the national fiscal consolidation ("Other deferred tax assets - IRES");
4. deferred tax assets triggered by deductible temporary differences for IRAP tax purposes ("Deferred tax assets - IRAP").

The test carried out for the 2019 Financial Statements was positive for all the above-mentioned cases. The deferred tax assets arising at consolidated level for each of them have therefore been recorded for the full amount in the consolidated financial statements as at 31 December 2019.
In past years, the results of the test carried out for financial statements of the last financial year for which the accounts have been closed have always been confirmed in the interim financial statements after verifying that no events likely to affect the outcome had occurred in the meantime.
The same considerations do not apply to this half-yearly report. As indicated in the section "The first half of 2020" of this Report and referred to several times, the European Securities and Markets Authority (ESMA) published the document "Implications of the Covid-19 outbreak on the half-yearly financial reports" which outlined the main implications of the COVID-19 pandemic, with specific reference to the information to be provided in the half-yearly reports of listed issuers. Within this document, ESMA specifically recommended issuers to consider the impact of COVID-19 on deferred tax assets recognised in accordance with IAS 12 even in their interim reports. A similar recommendation was also made by Consob in its Warning Notice no. 8/20 of 16 July 2020.
Therefore, considering the potential impact of the current macroeconomic scenario on the Group's future profitability - on which the recovery of the deferred tax assets depends - and the instructions issued by ESMA and Consob mentioned above, it was necessary to conduct an in-depth analysis to verify whether the positive outcome of the probability test carried out for the 2019 financial statements can also be maintained for the half-yearly report. For these purposes, the probability test was repeated i) using updated forward-looking earnings results to take account of the impact of COVID-19; ii) assuming the accounting data and temporary differences (taxable and deductible) identified as at 31 December 2019, bearing in mind that reversals occur on an annual basis when preparing tax returns; iii) verifying that the results of the test as carried out above could also be confirmed in relation to the amount of ineligible DTAs outstanding at 30 June 2020, which, however, were lower overall than those outstanding at 31 December 2019. The forward-looking earnings results referred to in point i) were prepared by the Planning and Control Department to take account of changes in the reference macroeconomic and banking scenario and the update of the outlook for 2020, which required an overall revision of the Group's economic and financial projections for the current year and for the subsequent years up to 2024 (these projections were the same as those used as the basis for the impairment testing of the intangible). When carrying out the probability test it was prudentially assumed, for years following 2024, that the taxable amount will remain steady, equal to that estimated for 2024 (thus without considering either the effect of the new managerial leverage or a growth rate). The analysis was performed separately, as usual, for each type of deferred tax asset referred to in points 1 to 4 above, in accordance with the requirements and with the results described below.

Ineligible deferred tax assets as at 30 June 2020 that are subjected to the probability test amounted to 5,425 million euro (joined by 1,855 million euro in deferred tax liabilities), while eligible deferred tax assets amounted to 8,241 million euro.

The probability test on the deferred tax assets relating to the tax losses of the former Venetian Banks and their subsidiaries – equal to 1,288 million euro (of which 1,120 million euro equal to the base IRES tax rate of 24% and 168 million euro to the additional IRES tax rate of 3.5%), which are added to an additional 172 million euro in tax losses generated, only for the

purposes of additional IRES, by Intesa Sanpaolo and the Group's banks merged – was conducted considering the individual position of Intesa Sanpaolo.
For the losses of the former Veneto Banca and Banca Popolare di Vicenza, the possibility of use on an exclusively individual basis by Intesa Sanpaolo derives from the regulations that set out the transfer (Art. 7, paragraph 3 of Law Decree no. 99/2017, converted with amendments by Law no. 121/2017, and Art. 15 of Law Decree no. 18/2016) at the time of the purchase of the business units of those banks. For the losses of Banca Nuova (formerly an investee of Banca Popolare di Vicenza) and of Banca Apulia (formerly an investee of Veneto Banca), instead, use on an individual basis depends on the merger of those companies into Intesa Sanpaolo (which occurred for Banca Nuova with accounting and tax effects from 1 January 2018 and for Banca Apulia with accounting and tax effects from 1 January 2019).
The analyses conducted confirmed the total absorption of the deferred tax assets in question over a time horizon deemed compatible with the "probability" of recovery required by IAS 12.

In the 2020 half-yearly financial statements, deferred tax assets of 50 million euro are also entered, which derive from previous years' tax losses being absorbed (199 million euro as at 30 June 2020) of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI). The analyses carried out in relation to the income forecasts of the Luxembourg subsidiary confirm the ability of that company to use the losses against which deferred tax assets are recognised.

Nevertheless, in conducting the probability test for the other deferred tax assets for IRES and the deferred tax assets for IRAP, deferred tax assets arising from temporary deductible differences associated with impairment losses on loans (other than those deriving from the first-time adoption of the IFRS 9; see below), as well as goodwill and other intangible assets with indefinite useful lives[15] ("eligible deferred tax assets" and "eligible temporary differences"), if carried in the financial statements prior to 2014, were considered separately from others. In this regard, it bears noting that, effective from the tax period ended 31 December 2011, deferred tax assets (for corporate income tax or IRES) recognised to account for tax losses due to the deferred deduction of eligible temporary differences are eligible for conversion into tax credits (article 2, paragraph 56-bis, of Law Decree 225 of 29 December 2010, introduced by article 9 of Law Decree 201 of 6 December 2011). Effective from the 2013 tax period, a similar conversion is allowed where the regional business tax (IRAP) return shows a negative net production value also in relation to IRAP deferred tax assets that pertain to eligible temporary differences that have contributed to determining the negative net production value (article 2, paragraph 56-bis.1, of Law Decree 225 of 29 December 2010, introduced by Law 147/2013). The above convertibility forms – which are in addition to that already envisaged for cases in which the separate financial statements show a loss for the year (article 2, paragraphs 55 and 56, of Law Decree 225/2010, as most recently amended by Law 147/2013) – provide an additional, supplementary recovery method suited to ensuring the recovery of eligible deferred tax assets in all situations, regardless of the company's future profitability. If in a given year there are surplus eligible temporary differences with respect to taxable income or net production value, the recovery of deferred tax assets takes the form not of a decrease in current taxes, but of the recognition of deferred tax assets on the tax loss or the negative net production value, convertible into tax credits pursuant to Art. 2, paragraphs 56-bis and 56-bis.1, of Law Decree 225/2010. The convertibility of deferred tax assets on tax losses and negative net production values that result from eligible temporary differences is therefore a sufficient condition for the recognition of eligible deferred tax assets, excluding them from the area of application of the probability test.
An additional limit to the straight convertibility of deferred tax assets was introduced by art. 11 of Law Decree 59 of 3 May 2016, amended by Law Decree 237 of 23 December 2016, which subordinated the transformation into tax credits of the eligible deferred tax assets which were not matched by an actual prepayment of taxes (so-called "type 2 DTA") to the payment of an annual fee, equal to 1.5% of their overall value, for the years 2016-2030. No fee is due for the transformation into tax credits of the eligible deferred tax assets which were matched by an actual prepayment of greater taxes ("type 1 DTA"). Considering that both the deferred tax assets recognised by the Companies that are part of the fiscal consolidation of Intesa Sanpaolo, as well as those included in the Parent Company's financial statements following the acquisition of the business units of the Venetian Banks resulted from "type 1 DTA", the Group is not currently required to pay this fee.
Article 1, paragraphs 1067 and 1068 of the 2019 Budget Act (Law 145 of 30 December 2018) envisage the deductibility (both for IRES and IRAP purposes) over ten tax periods, starting from the one under way as at 31 December 2018, of the adjustments to loans to customers recognised in the financial statements of banks and financial institutions on first-time adoption of the International Financial Reporting Standard IFRS 9[16]. According to that clarified in the Explanatory Report on the Measure, deferred tax assets recognised in financial statements in relation to the deferral of said deduction cannot be converted into tax credits based on the aforementioned provisions of Law Decree no. 225/2010. Therefore, those taxes must be subject to probability testing.

[15] With art. 17 of Law Decree 83 of 27 June 2015, the convertibility into tax credits was excluded (for any reason provided for by Law Decree 225 of 29 December 2010) of the deferred tax assets relating "to the value of the goodwill and the other intangible assets entered for the first time starting from the financial statements relating to the year underway at the date the provision comes into force", i.e. starting from 2015.

[16] The ten-year instalment period, which should have originally concluded in 2027, was extended by one year by the 2020 Budget Act (Law no. 160 of 27 December 2019).

Based on the above, the probability test on other deferred tax assets - IRES was carried out as follows:

a) identifying the “other deferred tax assets - IRES”, i.e. those not relating to the tax losses of the Venetian Banks, their subsidiaries and other Group companies and ISPHI, which were subject to a specific test to determine whether they could be recognised in the financial statements (see above);
b) identifying “ineligible” deferred tax assets among other deferred tax assets, as they cannot be converted into tax credits (see above);
c) analysing such ineligible deferred tax assets and deferred tax liabilities carried in the consolidated financial statements, distinguishing them by causal relationship and by foreseeable recovery timing;
d) provisionally determining the amount of the Group's future taxable income in order to verify its ability to recover the recognised deferred tax assets set forth in point b) above.

The analysis conducted indicated an IRES taxable base that was sufficient and adequate to allow recovery of the deferred tax assets relating to IRES carried in the half-yearly financial statements as at 30 June 2020.

Also for deferred tax assets - IRAP, the probability test was conducted analytically, referring only to the ineligible deferred tax assets (for those that can be converted into tax credits, as stated, the prospective certain use based on the cases of conversion into tax credits set out in paragraphs 56-bis and 56-bis.1 of Art. 2 of Law Decree 225/2010, effectively constitute a sufficient prerequisite for recognition in the financial statements, implicitly passing the related probability test).
The test was conducted by comparing the estimated forecast taxable income for IRAP purposes of Intesa Sanpaolo estimated on the basis of the same forecast data assumed in carrying out the probability test under point 1, with the cancelled ineligible temporary changes attributable in each of the ten years included in the reference time horizon of the test and resulting in the residual IRAP taxable base for each year.
Considering that, for IRAP purposes, different from that set out for IRES tax losses, there is no carrying forward of tax losses or the possibility of offsetting them as part of a consolidation, where in one or more years the residual taxable base is negative, the deferred tax assets - IRAP that can be recognised in the financial statements must be limited to only the amounts of the temporary differences that can be recovered in each year considered.
The calculations performed resulted in a positive residual IRAP taxable base in each of the years included in the reference time horizon of the test.

The positive result of the probability test for the various components of deferred taxation which formed at a consolidated level is confirmed even considering the updated forward-looking earnings results mentioned above.

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

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At 30 June 2020, assets held for sale amounted to 2.6 billion euro, or 212 million euro net of the associated liabilities, and are largely associated with Autostrade Lombarde and its operating subsidiary, Brebemi, in connection to the aforementioned agreement for their sale to Aleàtica S.A.U.

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk, based on management data.

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
EU Countries	**19,403**	**42,414**	**7,200**	**56,138**	**125,155**	**11,774**
Austria	-	34	29	2	65	-
Belgium	1,333	945	46	4	2,328	-
Bulgaria	-	-	-	62	62	-
Croatia	-	1,164	182	154	1,500	1,225
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	21	-	-	21	-
Estonia	-	-	-	-	-	-
Finland	-	45	-	3	48	-
France	2,040	3,249	503	739	6,531	4
Germany	516	1,890	364	353	3,123	-
Greece	-	-	7	-	7	-
Hungary	1	1,000	7	34	1,042	114
Ireland	673	524	-1	57	1,253	-
Italy	12,077	18,865	5,918	52,685	89,545	10,005
Latvia	-	-	-	-	-	34
Lithuania	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-
Malta	-	-	-	-	-	-
The Netherlands	52	383	106	77	618	-
Poland	40	59	-	18	117	-
Portugal	85	477	-41	-	521	-
Romania	56	302	1	251	610	7
Slovakia	-	1,034	119	-	1,153	127
Slovenia	1	187	125	-	313	204
Spain	2,529	12,207	-192	1,599	16,143	54
Sweden	-	19	53	-	72	-
United Kingdom	-	9	-26	100	83	-
Non-EU Countries						
Albania	405	132	1	-	538	1
Egypt	-	1,804	3	55	1,862	-
Japan	-	1,909	635	-	2,544	-
Russia	-	105	9	-	114	-
Serbia	-	712	9	-	721	100
U.S.A.	349	7,714	-126	10	7,947	-

Management accounts

As illustrated in the table, the exposure to Italian government securities at the end of the first half of 2020 totalled approximately 90 billion euro (86 billion euro at the end of 2019), in addition to around 10 billion euro represented by loans (11 billion euro at the end of 2019).

SHAREHOLDERS' EQUITY

As at 30 June 2020, the Group's shareholders' equity, including the net income for the period, came to 58,582 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 half of the year (2,566 million euro) and equity instruments issued (+1.4 billion euro), whereas the valuation reserves of the banking group and those pertaining to insurance companies had a negative impact (-1.4 billion euro overall).

As previously reported, 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 30.06.2020
Financial assets designated at fair value through other comprehensive income (debt instruments)	57	-964	-907
Financial assets designated at fair value through other comprehensive income (equities)	172	-170	2
Property and equipment	1,526	-5	1,521
Cash flow hedges	-882	-4	-886
Foreign exchange differences	-956	-143	-1,099
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	-2	-2
Actuarial profits (losses) on defined benefit pension plans	-410	13	-397
Portion of the valuation reserves connected with investments carried at equity	28	-9	19
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-157**	**-1,284**	**-1,441**
Valuation reserves pertaining to insurance companies	**504**	**-101**	**403**

Valuation reserves decreased, by -1,284 million euro in the banking component and by -101 million euro in the insurance component, respectively, mainly due to the performance of the spread on 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	30.06.2020		31.12.2019
	IFRS 9 "Fully loaded"	IFRS 9 "Transitional"	IFRS 9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	41,128	43,260	41,542
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,596	5,596	4,096
TIER 1 CAPITAL	**46,724**	**48,856**	**45,638**
Tier 2 capital net of regulatory adjustments	8,782	7,932	7,057
TOTAL OWN FUNDS	**55,506**	**56,788**	**52,695**
Risk-weighted assets			
Credit and counterparty risks	255,344	253,794	258,187
Market and settlement risk	19,617	19,617	18,829
Operational risks	22,258	22,258	21,212
Other specific risks (a)	304	304	296
RISK-WEIGHTED ASSETS	**297,523**	**295,973**	**298,524**
% Capital ratios			
Common Equity Tier 1 capital ratio	13.8%	14.6%	13.9%
Tier 1 capital ratio	15.7%	16.5%	15.3%
Total capital ratio	18.7%	19.2%	17.7%

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

Own Funds, risk-weighted assets and the capital ratios as at 30 June 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 30 June 2020, considering the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 56,788 million euro, against risk-weighted assets of 295,973 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 55,506 million euro, compared to risk-weighted assets of 297,523 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.
In addition, the Group has yet to adopt the new IFRS 9 transitional rules relating to adjustments to loans after 31 December 2019 or the reintroduction of the prudential filter for exposures to central governments classified to the FVTOCI category, both introduced by the European Commission in Regulation No 2020/873 of 24 June 2020.
Capital adequacy ratios as at 31 December 2019 had been calculated considering the income for 2019 net of the component that the Issuer's 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 as at 30 June 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). On 27 July 2020, the ECB extended its recommendation that dividends not be distributed until 1 January 2021, from the previous date of 1 October 2020 indicated in the recommendation dated 27 March 2020.
Common Equity Tier 1 Capital takes account of the net income for the first half 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 in the fourth quarter of 2020 regarding dividend distributions after 1 January 2021.
Common Equity Tier 1 Capital and risk-weighted assets as at 30 June 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 30 June 2020, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.6%, a Tier 1 ratio of 16.5% and a total capital ratio of 19.2%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 June 2020 were as follows: a Common Equity ratio of 13.8%, a Tier 1 ratio of 15.7% and a Total capital ratio of 18.7%.
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 8.44% under the transitional arrangements for 2020 and 8.64% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

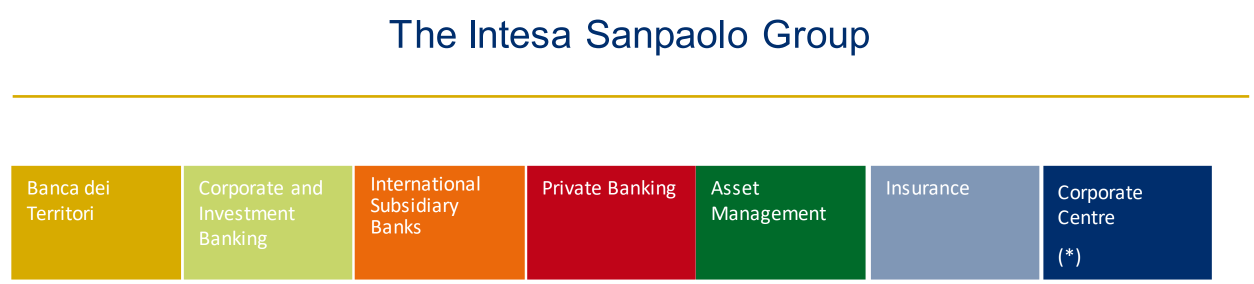
Captions	30.06.2020	31.12.2019
Group Shareholders' equity	58,582	55,968
Minority interests	221	554
Shareholders' equity as per the Balance Sheet	**58,803**	**56,522**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for 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	-179	-511
- Ineligible net income for the period (a)	-2,020	-3,451
- Treasury shares included under regulatory adjustments	240	230
- Other ineligible components on full phase-in	-153	-171
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**51,092**	**48,520**
Regulatory adjustments (including transitional adjustments) (b)	**-7,832**	**-6,978**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**43,260**	**41,542**

(a) Common Equity Tier 1 capital as at 30 June 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 30 June 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 and geographical area

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



(*) 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 half 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 based on Risk Weighted Assets (RWAs) was also calculated. RWAs were 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.

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:

- inclusion in the Insurance Division, of the income statement and balance sheet results of RBM Assicurazione Salute, which entered the line-by-line scope of consolidation due to the finalisation of the acquisition of the majority shareholding of the company in the second quarter of 2020;
- 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 attributable to the business line consisting of the acquiring activities in respect of payment systems, transferred to Nexi per the agreement signed in December 2019 and finalised at the end of the first half of 2020;
- 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 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 Banca Dei Territori Division and the Corporate and Investment Banking Division for 2019 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								
30.06.2020	3,975	2,594	939	955	355	670	-413	9,075
30.06.2019	4,146	2,007	986	962	364	594	16	9,075
% change	-4.1	29.2	-4.8	-0.7	-2.5	12.8		-
Operating costs								
30.06.2020	-2,485	-533	-481	-291	-70	-108	-435	-4,403
30.06.2019	-2,593	-547	-479	-288	-72	-103	-449	-4,531
% change	-4.2	-2.6	0.4	1.0	-2.8	4.9	-3.1	-2.8
Operating margin								
30.06.2020	1,490	2,061	458	664	285	562	-848	4,672
30.06.2019	1,553	1,460	507	674	292	491	-433	4,544
% change	-4.1	41.2	-9.7	-1.5	-2.4	14.5	95.8	2.8
Net income (loss)								
30.06.2020	58	1,214	245	427	212	327	83	2,566
30.06.2019	505	901	370	464	226	324	-524	2,266
% change	-88.5	34.7	-33.8	-8.0	-6.2	0.9		13.2
Loans to customers								
30.06.2020	201,715	141,627	34,806	9,100	239	-	15,850	403,337
31.12.2019	194,358	131,884	34,038	9,329	435	-	25,185	395,229
% change	3.8	7.4	2.3	-2.5	-45.1	-	-37.1	2.1
Direct deposits from banking business								
30.06.2020	213,285	85,108	44,109	38,714	9	-	56,581	437,806
31.12.2019	199,256	86,850	43,420	39,537	10	-	56,439	425,512
% change	7.0	-2.0	1.6	-2.1	-10.0	-	0.3	2.9
Risk-weighted assets								
30.06.2020	82,978	105,019	32,554	9,490	1,367	-	64,565	295,973
31.12.2019	86,829	100,274	32,916	9,184	1,446	-	67,875	298,524
% change	-4.4	4.7	-1.1	3.3	-5.5	-	-4.9	-0.9
Absorbed capital								
30.06.2020	7,128	9,024	3,407	869	155	3,943	3,936	28,462
31.12.2019	7,459	8,617	3,457	794	146	3,676	3,856	28,005
% change	-4.4	4.7	-1.4	9.4	6.2	7.3	2.1	1.6

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

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	30.06.2020	30.06.2019	changes	
			amount	%
Net interest income	2,060	2,063	-3	-0.1
Net fee and commission income	1,878	2,050	-172	-8.4
Income from insurance business	-	1	-1	
Profits (Losses) on financial assets and liabilities designated at fair value	39	34	5	14.7
Other operating income (expenses)	-2	-2	-	-
Operating income	**3,975**	**4,146**	**-171**	**-4.1**
Personnel expenses	-1,483	-1,556	-73	-4.7
Other administrative expenses	-1,000	-1,033	-33	-3.2
Adjustments to property, equipment and intangible assets	-2	-4	-2	-50.0
Operating costs	**-2,485**	**-2,593**	**-108**	**-4.2**
Operating margin	**1,490**	**1,553**	**-63**	**-4.1**
Net adjustments to loans	-1,363	-722	641	88.8
Other net provisions and net impairment losses on other assets	-31	-22	9	40.9
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**96**	**809**	**-713**	**-88.1**
Taxes on income	-34	-293	-259	-88.4
Charges (net of tax) for integration and exit incentives	-4	-10	-6	-60.0
Effect of purchase price allocation (net of tax)	-	-1	-1	
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**58**	**505**	**-447**	**-88.5**

(millions of euro)

	30.06.2020	31.12.2019	changes	
			amount	%
Loans to customers	201,715	194,358	7,357	3.8
Direct deposits from banking business	213,285	199,256	14,029	7.0
Risk-weighted assets	82,978	86,829	-3,851	-4.4
Absorbed capital	7,128	7,459	-331	-4.4

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 3,975 million euro in the first half of 2020, amounting to around 40% of the Group's consolidated operating income, down (-4.1%) on the same period of the previous year. In detail, there was a decrease in net fee and commission income (-8.4%), which was impacted by the sharp slowdown following the lockdown for the purpose of containing the COVID-19 pandemic, involving both fee and commission income relating to the assets under management segment, specifically subscription fees, and assets under administration, due to the lower placements of third-party certificates and bonds, and income deriving from the commercial banking segment. Net interest income remained steady, amounting to levels similar to those of the first six months of the previous year. Among the other revenue components, which however provide a marginal contribution to the Division's income, profits (losses) on financial assets and liabilities designated at fair value grew (+14.7%) on the same period of 2019, while other net operating income remained stable. Operating costs, equal to 2,485 million euro, were down by 4.2%, thanks to the savings in personnel expenses, attributable to the reduction in the average workforce, and the decrease in administrative expenses, despite higher costs connected with the health emergency, mainly due to savings on service costs in the real estate and operations sectors, the rationalisation of the branch network and lower expenditure on advertising, entertainment and for services rendered by third parties. As a result of the changes described above, the operating margin amounted to 1,490 million euro, down 4.1% on the same period of the previous year. Gross income, equal to 96 million euro, was harshly impacted by the recognition of

significant adjustments to loans mainly correlated with the revision of the scenario following the pandemic. Lastly, net income, after allocation to the Division of taxes of 34 million euro and charges for integration of 4 million euro, amounted to 58 million euro (-88.5% compared to the first six months of 2019).
In the second quarter, the operating margin decreased on the first, mainly as a result of the downturn in operating income due to the effects of the health emergency. Gross income and the net income (loss) were negative due to the significant adjustments to loans recorded during the period.

The balance sheet figures at the end of June 2020 showed positive growth in total intermediated volumes of loans and deposits from the beginning of the year (+5.4%). In detail, loans to customers, equal to 201,715 million euro, recorded an increase of 7.4 billion euro (+3.8%), due mainly to medium-/long-term loans to SMEs and retail businesses, which reflect the Group's support to the Italian economy, also in relation to the extraordinary measures taken by the government. Direct deposits from banking business, amounting to 213,285 million euro, were up by 14 billion euro (+7%) in the amounts due to customers component, due to the higher liquidity on deposits held by businesses and individuals.

Business	Traditional lending and deposit collection operations in Italy and associated financial services.
Mission	To serve Retail, Exclusive, Small Business, and Small and Medium Enterprise customers, creating value through: – widespread local coverage; – focus on the characteristics of local markets, and the needs of customer segments serviced; – development of service levels to customers using different channels in order to improve the efficiency of the commercial offering; – development and management of products and services for the target customers, as well as of leasing, factoring and subsidised finance products for the Group in Italy; – the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres and branches as points of reference for the Group at local level;
Organisational structure	
Individuals and Retail Companies Sales & Marketing, SME Sales & Marketing	Overseeing the Retail sector, which consists of the segments Individuals, Affluent and Retail Businesses, the Exclusive sector (retail customers with high asset and wealth standing and complex financial needs) and the SME area (small businesses, businesses and top businesses with high complexity and potential for growth).
Banca 5	A "proximity bank", operating throughout the country in non-captive points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Impact Department	Aimed at developing the initiatives of Impact Bank and serving non-profit organisations.
Distribution structure	Approximately 3,400 branches, including Retail and Business branches, distributed broadly throughout Italy, and Impact branches dedicated to the non-profit sector. The territorial structure is divided into 8 Regional Governance Centres, in each of which there are (to favour the commercial focus and guarantee a better control of the service level) three Commercial Managers, specialized for "commercial territory" (Retail, Exclusive and Business), which report directly to the Regional Director and that coordinate around 400 commercial areas.

Following the end of the half-year, on 1 July 2020, the strategic agreement signed by Intesa Sanpaolo and Nexi on 19 December 2019, which provides for the transfer to Nexi of the Intesa Sanpaolo business line consisting of the acquiring activities carried out for over 380,000 points of sale, was finalised. Intesa Sanpaolo will retain the sale force dedicated to acquiring new customers. Through the long-term partnership, Nexi will become the sole partner of Intesa Sanpaolo in the acquiring activities and the latter will distribute the acquiring services provided by Nexi while maintaining the existing relationship with its customers.

Individuals and Retail Companies Sales & Marketing, SME Sales & Marketing

Investment and Pension Funds

During the half-year, the diversification of customer portfolios continued according to the need-based approach (spending, reserves, investment and pension) and the Recommended Portfolios. Moreover, the advanced advisory services, "Valore Insieme", was expanded with the Exclusive package, featuring a "fee-only" pricing model and dedicated products. The offer of investment products was extended with a new protected fund upon maturity, offering solutions to support the enhancement of liquidity, with the range of 12 Luxembourg funds with continuous placement, "Eurizon Next", and with the support of periodically updated asset allocation. The placement of "Eurizon Progetto Italia" Individual Savings Plans was reopened with the launch of "Eurizon Italia Difesa 95", which provides for protection of 95% of the capital on maturity. Lastly, the multimanager line of funds of funds that was previously reserved to "Valore Insieme Exclusive" was extended to the entire network and the offer dedicated to legal persons was expanded. In the area of bancassurance, the second tranche of the Class I policy "Obiettivo Sicurezza$_{\text{Insurance}}$", subject to a ceiling and with a guarantee of invested capital, and the unit-linked policy "Prospettiva Sostenibile", with ESG features, were launched.

New service model

The new service model of Banca dei Territori became operational in mid-January 2020. This model changes the approach to segmenting individual customers, concentrating on the present value of customers and on the potential that they express, maintaining the centrality of the relationship and reorganising the commercial chains to offer customers the service methods and intensity that match their needs. The guiding criterion in defining the segments and portfolios is no longer just assets, but also the estimated income and spending capacity, age, the core of the relationship and the use of digital channels. Increasing the focus on high value and high potential customers, identified both based on their assets and by analysing their current account transactions, and managing retail customers in a personalised manner, based on their needs, are the key approaches of this change.

Transactional products and digital payments

During the COVID-19 emergency, numerous extraordinary measures have been implemented to meet the needs of customers, including measures to support individuals that needed to open a current account at Intesa Sanpaolo and to speed up the opening of new accounts for companies and businesses, sending payment cards to customers' homes while extending the possibility of using them to one month after expiry, emergency management of the disbursement of the extraordinary redundancy fund, with a fully online process for applying for crediting of those amounts, and the elimination of fees for sending money through the Money Transfer service.
In line with the continuous evolution of digital payment systems, the Bank's digital wallet was automatically made available in the Intesa Sanpaolo Mobile App, for all multi-channel customers, through the new brand "XME Wallet". To support the widespread use of cards and digital payments, their features were upgraded, increasing the security of e-commerce payments for Intesa Sanpaolo customers, and developing new services, both for buyer customers and business customers, increasing the speed of the user experience of payment. Expansion of the use of the "XME Commerce" app for collecting payments by card (where a Mobile POS is present) and innovative payments such as Bancomat Pay continued.

Loans

"PerTe Prestito Diretto", the special-purpose loan for multi-channel current account holders that can be applied for via Internet Banking and using the Intesa Sanpaolo Mobile App, based on agreements with merchants, further developed its range of goods and services offered, with zero APR and Annual Effective Global Rate due to the contribution of the merchant, offering an innovative, "green" range focused on issues of innovation, sustainable mobility and the environment, in addition to the situation of the health emergency, taking into consideration aspects such as safety and social distancing.

Mortgages

To ensure increasingly efficient coverage of home ownership needs, "Mutuo Exclusive" is the new fixed-rate mortgage targeted to customers with advanced needs, aimed at facilitating investments in real estate assets, capturing customers' desire to improve their housing situations, the needs for a second home or the intention to diversify their assets. Confirming that the environment is a strategic issue and a priority for Intesa Sanpaolo, at the end of May "Green - Mutuo Domus" was launched. This is a mortgage loan dedicated to purchasing or building a residential property in Italy with a high energy class (equal to or higher than B) or restructuring and redevelopment of owned property, improving by at least one energy class. The initiative aims to support the redevelopment of Italian property assets and the increase in high-energy saving homes, in synergy with the European Consortium EeMAP, a European initiative the Bank is participating in, which intends to develop a standardised energy efficiency mortgage at European level. The new green offering was completed with a number of services provided by selected partners: to stimulate the signing of green loans, the "Diamo Una Casa Alle Api" initiative was launched, to protect bees, in partnership with the WWF, which entails the payment of 30 euro for each mortgage and 10 euro for each personal loan. During the emergency phase linked to COVID-19, the offering of mortgages was modified, implementing a contingency process that permits the phases of offering and application to be executed through a telephone interview with the customers and the exchange of documents via email. For households, Intesa Sanpaolo activated a suspension initiative, setting up remote methods for submitting applications. As envisaged by the "Cura Italia" Decree, the rules for the Solidarity Fund for mortgages on primary residences were revised, setting up a remote process to collect applications, which led to the creation of a dedicated internal task force to analyse the applications received and forward them to Consap for the assessment regarding approval. The Bank quickly took action to implement the legislative changes, through, for example, the preventive activation of suspension and the subsequent cancellation thereof where the rejection was received from Consap within 20 days from sending the application.

Protection

To meet the needs arising due to the health emergency, extensions of the health coverage offered have been made, also to new subscribers, for Proteggi Salute and XME Protezione Interventi Chirurgici for 12 months, in the event of contracting the Coronavirus, for the same amount as the premium paid.
The insurance offering dedicated to the business world was enriched with the Polizza Collettiva Infortuni, which allows SMEs and retail businesses to insure employees and contract workers against the risk of injury. The flexibility of the "Tutela Business" range was increased, with a wider choice of insurable amounts and limits. This range includes "Tutela Business Agricoltura", "Tutela Business Commercio" and "Tutela Business Manifattura", insurance solutions designed for retail businesses and small and medium enterprises operating in various industries, insuring the business in its daily work and protecting their capital in case of unexpected events.

Young people

Intesa Sanpaolo, the bank that supports the dreams, passions and plans of young people, offers the innovative "per Merito" loan, to enable students with high school diplomas to continue their studies, through accessing the loan based on their educational merit, without collateral, with zero entry costs and disbursement of the loan on their current accounts at subsidised rates. Up to the time of the lockdown imposed by COVID-19, the following projects continued: "Z Lab", a three-year programme of learning, trial experience and orientation for young men and women attending high school, held at the offices of the Group and aimed at developing transversal skills, a sense of cooperation, teamwork and creativity, and the "Giovani e Lavoro" project, to favour the employment of young people aged 18 to 29, overcoming the skills gap between demand and supply, offering targeted training, free of charge, both for young people and for the participating businesses, for professional positions the businesses need to fill and for which there is low supply on the labour market.

Multichannel Project

The development of multi-channel and digital banking continued, reaching 9.8 million multi-channel customers (84% of total customers) and 6 million active users on the App at the end of June 2020. Almost all the products in the retail catalogue, including current accounts, payment cards, personal loans and non-banking products as well, such as smartphones, tablets and PCs, can be purchased via Internet Banking and/or the Mobile App. During the half-year the multi-channel development of new customer journeys continued, to improve the offering and the customer experience, increasing the remote usability of the services offered by the digital channel. The new innovative service "XME Banks", a financial aggregator available free of charge for retail customers holding My Key contracts, allows customers to view, using the App and the website, also the current accounts and cards they hold at other banks, with the ease of being able to monitor and manage all their financial resources using a single digital platform.
For retail business and SME customers, the subscription of My Key Business was activated, to access the NDCE Business platform (the new internet banking site for legal persons and ISP Mobile Business App) and, as part of the digitisation process of the Business area, the development of the Inbiz platform continued, to increase its position as a place for relationships and doing business, with the goal of enabling the business customers that use it to purchase products/services of the Bank in a fully digital manner, without the need to go to the branch, through the new digital identity model, My Key Inbiz.
The Online Branch, which interacts with customers, offering comprehensive services, from tech support on the site and app, through banking operations and remote sales, supplementing the on-site offering from the physical branch, up to remote advisory services in synergy with the network, continued to grow: over 1,300 people with around 1,000 managers in 18 cities and around 39,650 products sold in the first half of 2020. 153 remote managers are also operational, at 14 remote branches, offering free, personalised remote advisory services, available during extended hours, in synergy with the physical branches and the Online Branch, for dedicated support, operations and product subscription.

Agreements

Intesa Sanpaolo is the first bank in Europe to reach an agreement with the EIB to create a portfolio with a total ceiling of 280 million euro in loans connected with investment projects in the area of Renewable Energy, Energy Efficiency and the Circular Economy. The loan, 50% guaranteed by the EIB with financial support from the European Fund for Strategic Investments, provides for a duration from 4 to 15 years and a minimum amount of 3 million euro for investments supporting Energy Efficiency and the Circular Economy and 5 million euro for those supporting Renewable Energy, and a maximum of 35 million euro.
To protect businesses in the wholesale and retail, tourism, services and transport sectors and the people working in those sectors, Intesa Sanpaolo has reserved a ceiling 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. To support the tourism industry, Intesa Sanpaolo has signed agreements with the main national associations of the tourism-hospitality sector and set up a package of solutions dedicated to companies in the sector and related industries, which enables them to overcome a longer period of difficulty, to protect employment and to lay the foundations for a recovery that will occur after that of other sectors of the economy, establishing a credit line to support liquidity and investments for a total value of 2 billion euro. An agreement was also signed with Confartigianato Imprese to develop international business and support liquidity and investments.

Loans

As a result of the COVID-19 emergency, to provide the utmost support to Italian businesses and enable them to overcome the contingent difficulties, and restart as soon as possible, also to protect employment, even before the government took action, Intesa Sanpaolo activated the option to suspend instalments of mortgages and loans and allocated a ceiling of 50 billion euro for new credit lines with a duration of 18 months (less one day) for customers and non-customers who do not have available credit lines, with favourable conditions, and 10 billion euro dedicated to Intesa Sanpaolo customers, who benefit from previously approved large credit lines, made available for wider, more flexible purposes, such as managing urgent payments. The offering was enriched with the loans guaranteed by the Guarantee Fund in line with Decree no. 23 of 8 April 2020 (so-called "Liquidity Decree"), converted into Law 40 of

5 June 2020. Specifically, as a result, SMEs, artisans, freelance professionals and all those that operate their own business were able to apply for a loan up to the maximum amount of 30 thousand euro, with a maximum duration of 120 months, with a grace period of up to 36 months, fully guaranteed by the Guarantee Fund, through a remote process, from the Bank's showcase website. In implementing the measures set out in the Liquidity Decree, to ensure quick responses to the needs of businesses and speed up the time frames for accessing credit through the intervention of the Guarantee Fund, Intesa Sanpaolo distributed the funds before the response of the Guarantee Fund, expanded the Specialist Hubs and simplified procedures. Intesa Sanpaolo was also the first Italian bank to sign the cooperation protocol with SACE to offer loans to SMEs and businesses, to support personnel expenses, investments or working capital exclusively for production facilities and businesses located in Italy, with the value of the SACE guarantee with consideration varying from 70% to 90% of the amount financed.
Companies in the Agriculture sector also benefited from the suspension of instalments of mortgages and loans due to the emergency connected with COVID-19, confirming Intesa Sanpaolo's significant focus on Italian agribusiness companies. Support to the segment was also obtained through access to loans guaranteed by ISMEA (the public entity that supplies financial, insurance and IT services to agricultural businesses), in line with Liquidity Decree no. 23 of 8 April 2020, converted into Law 40 of 5 June 2020, which enabled SMEs in the agricultural sector to apply for loans to cover liquidity, investments and debt renegotiation.
To favour access to sources other than bank borrowing, the Bond product continued to be offered to Italian SMEs. Bond issuance enables companies to improve their reputations in the eyes of the banking and financial system and to position themselves as innovative users of new forms of financing, while also benefiting from the capital made available by institutional market participants that is not otherwise accessible.
The "Offerte Impresa Plus", integrated product solutions offered by the Bank, which include the modular offers "Dipendenti Plus", "Copertura dei Rischi Plus" and "Digitalizzazione Plus", designed to meet certain needs of corporate customers, with possible dedicated discounts for customers who activate at least one product in the range, in addition to the sector-specific offers "Sistema Casa Plus", "Sistema Salute Plus", "Sistema Meccanica Plus" and "Sistema Persona Plus", which contain the most distinctive products and services selected by the Group to meet the specific needs of the company's macro-production chain, were expanded with two new sector-specific offers, "Agroalimentare Plus" and "Turismo Plus".
The "Billing" service is also available to businesses. This flexible, dynamic invoicing service aggregates all expenses into a single debit at the end of the invoicing period, offering a detailed, clear statement, which increases the efficiency of administrative processes and monitoring of expenses.

Sviluppo Filiere

The "Programma Filiere", an innovative form of credit launched by Intesa Sanpaolo to favour access to credit for suppliers by taking advantage of their role in the production chain, reached over 690 participating lead companies, of which more than 380 participating in Confirming, a tool that can be used to finance receivables claimed by suppliers from lead companies, with a potential of 15,600 suppliers. Additional agreements were signed which envisage new types of chains, involving the two levels of direct and indirect suppliers, and even the downstream chain, that of resellers.

Intesa Sanpaolo Forvalue

Intesa Sanpaolo Forvalue, specialising in non-financial services by providing high value added services to businesses, expanded its offering by signing an agreement with Co.Mark to offer internationalisation services and introducing the mid-term vehicle lease with the partner Arval. Moreover, during the phase of the unprecedented health emergency, with its partner Euroconsult Rental Division, the Bank implemented the "#lavorodacasa" (working from home) initiative, which offers businesses the option to rent (for 12, 18 or 24 months) laptops for employees and contract workers who lack such equipment, to enable them to work, with the goal of guaranteeing business continuity to many businesses that continued to operate remotely. Lastly, working with commercial partners, it organised webinars on various issues, viewed by over 400 businesses.

Leveraging of the Branch Network

The innovative service "In Vetrina", envisaged in the 2018-2021 Business Plan, makes available to qualified partners the physical and digital communications channels of the bank to promote and sell their products and services. The set-up of display areas at branches, combined with communication initiatives to selected targets of customers, provide commercial partners with an exceptional showcase and opportunity for contact with customers.

Banca 5

Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.
At the end of 2019, the agreement between Banca 5 and SisalPay was finalised to set up a newco with the objective of offering banking products and payment and transactional services at over 40,000 merchants located throughout the entire country. The new network, which has been fully operational since the beginning of the year, adds to the offering of products and services of Banca 5 and SisalPay.
As at 30 June, around 16,000 non-captive points of sale were authorised to offer Banca 5 services. Moreover, during the second half of 2020 the merchants in the former SisalPay network will also begin to provide certain services of Banca 5, including withdrawals and bank transfers (reserved to customers of Intesa Sanpaolo). To strengthen the newco's sales network, the "Smart POS" offer ensures that authorised merchants can even more widely distribute the range of products and services of Banca 5. To date, 59 non-captive points of sale participate in the "Smart POS" offer. There are also around 26,400 retail customers using the Banca 5 app, with 18,300 cards sold and 2,700 active payment accounts.

Impact Department

The Impact Department is dedicated to managing non-profit customers and coordinating the activation and management of Social Impact Funds. In January 2020 the network was expanded to 90 branches, and the organisational structure was revised, establishing the Non-Profit Sector Commercial Department to oversee the network. The acquisition of non-profit customers from other commercial areas of the Banca dei Territori Division, with dedicated welcome initiatives, was completed. At the end of the half-year, the number of customers came to over 90,000, financial assets amounted to 6.8 billion euro, of which 5 billion euro in direct deposits, while lending operations presented an approved amount of 3.3 billion euro (of which 2.4 billion euro had been used).
Based on the business plan, initiatives were realised to develop the relationship with non-profit organisations and better meet their needs. Starting in March, as a result of the COVID-19 emergency, an agreement was signed with ACRI to create a guarantee fund to support liquidity needs of organisations in the non-profit sector and to handle the period of health crisis, as well as to favour access to government credit measures (over 2,000 applications for loans with coverage from the Central Guarantee Fund).
It is also important to note the decision to provide financial support to a Social Housing initiative promoted by Redo SGR – Fondo Immobiliare Lombardia Comparto Uno, a Benefit Company 66%-owned by Fondazione Cariplo. Fondo Immobiliare Lombardia Comparto Uno, along with CDP – Fondo Investimenti per L'Abitare, with 68% of the units, aims to optimise the use of public and private resources for the purpose of Social Housing measures as a driver of urban regeneration. The investment strategy is based on three areas of long-term sustainability, i.e. social, environmental and economic/financial. The development plan, presented to the Impact Department of Intesa Sanpaolo, provides for over 900 million euro in investments planned over the next 20 years, creating a significant driver of development of Social Housing through public-private partnerships and institutional investors with roots in Lombardy.

Corporate and Investment Banking

(millions of euro)

Income statement	30.06.2020	30.06.2019	changes	
			amount	%
Net interest income	1,031	913	118	12.9
Net fee and commission income	488	456	32	7.0
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,069	636	433	68.1
Other operating income (expenses)	6	2	4	
Operating income	**2,594**	**2,007**	**587**	**29.2**
Personnel expenses	-203	-203	-	-
Other administrative expenses	-315	-330	-15	-4.5
Adjustments to property, equipment and intangible assets	-15	-14	1	7.1
Operating costs	**-533**	**-547**	**-14**	**-2.6**
Operating margin	**2,061**	**1,460**	**601**	**41.2**
Net adjustments to loans	-237	-115	122	
Other net provisions and net impairment losses on other assets	2	-11	13	
Other income (expenses)	-	3	-3	
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**1,826**	**1,337**	**489**	**36.6**
Taxes on income	-607	-434	173	39.9
Charges (net of tax) for integration and exit incentives	-5	-2	3	
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**1,214**	**901**	**313**	**34.7**

(millions of euro)

	30.06.2020	31.12.2019	changes	
			amount	%
Loans to customers	141,627	131,884	9,743	7.4
Direct deposits from banking business (a)	85,108	86,850	-1,742	-2.0
Risk-weighted assets	105,019	100,274	4,745	4.7
Absorbed capital	9,024	8,617	407	4.7

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

(a) The item includes certificates.

In the first half of 2020, the **Corporate and Investment Banking Division** recorded operating income of 2,594 million euro (representing about 30% of the Group's consolidated total), growing sharply (+29.2%) compared to the same period of last year.
In detail, net interest income of 1,031 million euro was up by 12.9%, benefiting from the greater contribution of loans to customers. Net fee and commission income, amounting to 488 million euro, increased by 7%, due to the performance of the investment banking segment. Profits on financial assets and liabilities designated at fair value, amounting to 1,069 million euro, was the revenue caption with the highest increase compared to the first six months of 2019: +433 million euro, also due to the trend in valuation effects, which reflects the debt value adjustment (DVA) correlated with liabilities comprised of certificates. Operating costs amounted to 533 million euro, down 2.6% compared to the same period of the previous year, due to savings on administrative expenses. As a result of the above revenue and cost trends, the operating margin came to 2,061 million euro, up 41.2% compared to the same period of 2019. Gross income, amounting to 1,826 million euro, was up 489 million euro (+36.6%), despite higher net adjustments to loans recorded in the second quarter due to the COVID-19 pandemic. Lastly, net income came to 1,214 million euro (+34.7%).

The Corporate and Investment Banking Division recorded a decrease in the operating margin in the second quarter 2020 compared to the first, to be analysed essentially along with the decrease in revenues attributable to net profits (losses) on financial assets and liabilities designated at fair value. This trend was reflected in the gross income and in the net income, which were also penalised by the significant adjustments to loans recorded during the period.

The Division's intermediated volumes increased compared to the beginning of the year (+3.7%). In detail, loans to customers, amounting to 141,627 million euro, grew significantly by 9.7 billion euro (+7.4%), essentially due to medium/long-term loans to global corporate customers and financial institutions customers, and structured finance transactions, as well as short-term transactions in the global markets segment. Conversely, direct deposits from banking business amounted to 85,108 million euro, down by 1.7 billion euro (-2%) due to the decrease in securities issued by the International Department, only partly offset by the increase in amounts due to global corporate customers and the Luxembourg subsidiary.

With regard to the organisational structure, it is noted that in July, following the merger by incorporation of Banca IMI into the Parent Company, the Division took on the new name of IMI Corporate & Investment Banking.

Business

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

Mission

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

Organisational structure

Global Corporate Department

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

International Department

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

Financial Institutions Department

The Department is responsible for commercial relationships with financial institutions on domestic and international markets, with a dedicated service model organised by customer segment (i.e., Banks, Insurance Companies, Asset Managers, Financial Sponsors, Sovereign Funds and Governments).
Commercial development activity, which is particularly diversified and innovative, takes the form of proposing integrated solutions that facilitate the cross-selling of Capital Markets, Investment Banking, Commercial Banking and Transaction Banking products.

Global Transaction Banking Department

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

Proprietary Trading

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

Global Markets and Investment Banking & Structured Finance

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

Distribution structure

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

Global Corporate Department

In the first half of 2020, the Global Corporate Department confirmed its role as strategic and financial partner to its Italian and international customers, supporting them by organising and participating in a number of financing and investment banking transactions in cooperation with Banca IMI. Owing to the specialised expertise linked to the Industry model and the origination capacity of the two specialised teams dedicated to developing strategic investment banking and structured finance transactions, support continued to be provided to important international counterparties with a view to sector and geographical diversification.
During the half-year, measures were implemented to support corporate customers to manage the economic and financial consequences of the COVID-19 health emergency, envisaging dedicated remote processes to enable full operations of customers. Those measures were executed both on the initiative of the Bank and following the Government Decrees "Cura Italia", "Liquidità" and "Rilancio Italia". Among these, it is particularly worth noting the disbursement of new loans with government guarantees (Central Fund and SACE). In particular, a loan to FCA Italy and other Italian FCA group companies was finalised, which incorporates an innovative system for controlling flows to be allocated to payment of Italian employees, the supply chain and expenditure for investments in Italy on new vehicle models with less polluting engines.
Moreover, the bank intends to contribute with new tools to support and relaunch the Italian economy during the critical "restart" phase that the country must face by revamping its "Programma Filiere" supply chain programme with a project aimed at strengthening the entire production chains. These production chains are indeed an essential driving force behind the Italian economy and the heart of Italy's economic and productive system. They guarantee sustainable, inclusive and world-class development that stimulates employment and investments. The Corporate and Investment Banking Division, and the Banca dei Territori Division, are firmly committed to the success of the initiative which aims to facilitate the connection between the large corporate companies (lead companies) and the SMEs that supply them, facilitating the integrated and comprehensive management of the entire Italian production system
During the period, the Group participated in numerous syndicated loans, including those to Esselunga, Davide Campari Milano, General Motors, WIGA, Leonardo, Nordex, Reliance Industries, EP Infrastructure, Cerved, Polynt and Ulker Biskuvi Sanayi A.S. (Yildiz Group). Some of the transactions were conducted as part of the Originate to Share framework.
Numerous loans were finalised in the Green and Circular Economy area, including those to Pirelli, El Corte Ingles and Indorama. A loan to Canadian Solar was also finalised for the construction of photovoltaic plants.
Attention should also be drawn to support for acquisition financing in important transactions completed during the half year, such as the acquisition of Bindi by BC Partners. The Bank acted as bookrunner in the project financing of F2i Energie Rinnovabili. The refinancing of CDP RETI and of FLNG Liquefaction 3 was also finalised. Regarding M&A, the Group acted as financial advisor in the acquisition of Vodafone Tower by Inwit.
In the debt capital markets business, the Bank acted as bookrunner in numerous issues, including LVMH, EssilorLuxottica, AT&T, Nestle, Engie, Ford Motor Credit, United Group BV, Sabine Pass Liquefaction, Unibail Rodamco, Heineken, Signify, Eni, Telefonica, Carrefour, Naturgy, FCA Bank, EDP Energias de Portugal, Iberdrola, General Motors, Ferrari, HeidelbergCement, Snam, APRR, Cellnex, Italgas, Abertis, Acea, Cepsa, Iren and Wolters Kluwer. In the equity capital markets business, the Bank acted as joint global coordinator and joint bookrunner in the accelerated bookbuilding of Inwit, as well as coordinator-lead manager in JDE Peet's IPO.

International Department

During the first half of 2020 the International Department managed the COVID-19 emergency on the entire international network of the Corporate and Investment Banking Division, by activating all the technological and organisational solutions necessary to protect the health of colleagues and stakeholders, as well as for business continuity on the international markets. The Shanghai branch also played an important role in supporting Italian institutions in importing medical supplies to Italy. The widespread use of remote working, with percentages of colleagues involved near or equal to 100%, did not impact the levels of service provided to customers, allowing for oversight of international business, which was characterised by strong commercial development in the initial months of the year, specifically with Italian customers operating abroad, and with international players present on both mature and high potential markets.
In that context, the Accelerate programme continued. This initiative was launched in the second half of 2019 with the goal of boosting business with international customers, as part of the International Growth strategic initiative. In this phase characterised by an economic downturn due to the national and global spread of the pandemic, the programme focused on forward looking analyses of various industrial sectors in the post-COVID-19 scenario, to be ready to incisively contribute to the restart of the economy in the geographical areas where the Division operates.
The Division's current international network is present in 25 countries through 14 wholesale branches, 11 representative offices and 4 corporate banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A. and Banca Intesa-Russia).

Financial Institutions Department

In the first six months of 2020, the Department continued to assist Italian and international financial institutions in particularly complex and strategically important operating and extraordinary finance deals in a market which, specifically in the second quarter, was impacted by the effects of the pandemic. In the domestic and international banking sectors, the Group provided advice and financing in transactions to optimise and strengthen capital structure, both on the equity and debt markets, as well as in the restructuring and sale of problematic assets and/or refinancing of performing assets. As regards the Italian market, it acted as global coordinator in the placement of a package of shares of Nexi by Mercury UK and, also for Nexi, in the issue of a convertible bond. On the international markets, it acted as joint bookrunner in the five-year senior non preferred issue of Santander and the covered bond issues of Deutsche Bank, BPCE and Erste. At the beginning of the year, the Group took up

DCM business again, for SEC-Registered transactions in the United States. In that area, it participated in numerous issues of leading American banks (Bank of America, Citigroup, Goldman Sachs, JPMorgan, Morgan Stanley and Wells Fargo) and of the Canadian group Toronto Dominion (in US dollars, 3 and 5-year senior unsecured bail-in bond offering).
The business with non-bank financial institutions featured a highly positive first quarter followed by a second quarter that was impacted by the market context. Specifically of note are: operations with the Ministry of the Economy and Finance, with the role of dealer in the placement of BTP Italia and the role of joint bookrunner in the dual tranche issue of BTP (5-year and 30-year) placed in April, the role of joint bookrunner in two issues of social bonds of CDP, the bilateral loan to the leading companies in the consumer credit sector, in the form of RCF or term loan (Compass, Agos Ducato and BFF) and the securitisation transaction on a new type of asset, such as tax credits/VAT credits, in favour of Banca Sistema. In the commercial banking business, the Bank maintained its leading position in collection and payment services for the leading companies in the near-banking sector. At international level, specifically, commercial efforts were increased in relationships with foreign governments, which led to the identification and finalisation of new business opportunities.
Business with financial institutions in emerging markets was also sharply influenced by the market conditions at international level. Volumes relating to commercial transactions decreased significantly, and with these, the typical operations of documentary credit and trade loans supporting imports/exports in those countries. As regards the Bank's risk portfolio, during the period exposures decreased, particularly sharply in Turkey and Brazil. With regard to the Structured Deals area, the considerable slowdown in cross-border deals and the drop in prices of many commodities led to a decrease in business opportunities for the Bank, which mainly focused on projects in the phase of finalising contracts, originated in Africa, the Middle East and Asia in the last quarter of the previous year. These include the loan granted to TATA Steel, an Indian multinational and one of the leading global manufacturers in the steel sector, which finalised a 5-year pre-payment finance facility with various international banks. The supply chain financing sector (which the Bank mainly carries out through its Hubs in New York, London and Hong Kong) remained lively, recording improving margins and sustained volumes that are expected to grow during the rest of the year.
As regards Private Equity Funds and Sovereign Wealth Funds, even though activity on the market gradually fell, the Group was involved in a good number of significant transactions, also on foreign markets, due to a targeted commercial strategy. On the Italian market, it is important to note the role of bookrunner in the refinancing of Polynt-Reichhold, the global leader in the chemical industry of unsaturated polyester resins, jointly held by the sponsors Investindustrial and Black Diamond, and the support to the Dedalus Group, an investee of the Ardian fund and leader in software development and provision in the healthcare sector, in the acquisition of a business unit of Agfa Healthcare, an operation in which, in addition to providing financing, the Bank also acted as financial advisor of the buyer. In the area of transactions with Private Equity funds on international markets, we note the role of bookrunner in the bond issue of United Group, a leading telecommunications operator in South-East Europe, controlled by KKR and BC Partners, support to Lone Star in the acquisition of the Construction Chemicals Division of BASF, and the participation, as regards the US market, in the financing for the acquisition of E Research Technology, leader in software for the pharmaceutical field, by Astorg Partners and Nordic Capital. Positive results were also achieved in the Sovereign Wealth Funds and Pension Funds segments, with the participation in important transactions such as the bond issue by Mubadala, the revolving credit facility to Investcorp and the financing to a consortium composed of APG, South Korean Pension Service and Swiss Life AM in the acquisition of Brisa.

Global Transaction Banking Department

During the first half of 2020, constant assistance to customers was guaranteed, by making available services for remote operations on the corporate banking portal (Inbiz), for the purpose of enabling customers to continue conducting business and guaranteeing access to and signing of documents and contracts. Support was also provided for purchases and sales of goods and services with international suppliers, also through the companies in the Exetra Group, launched last year.
As part of the Programma Filiere, a partnership with leading fintech companies was defined to supplement the Supply Chain Finance offering with innovative solutions such as Dynamic Discounting, a service that enables large buyers that have excess liquidity to propose to their suppliers the advance payment of invoices in exchange for a discount on the price, using an easy, web-based mechanism which automatically updates accounting records.

Proprietary Trading

In the first half of 2020, Proprietary Trading made a slightly negative contribution to the income statement, in terms of income margins, compared to substantial breakeven in the first six months of 2019.
The risk exposure in structured credit products, which amounted to 3,794 million euro as at 31 December 2019, came to 2,985 million euro as at 30 June 2020, showing a net decrease of 809 million euro. The exposure includes investments in ABSs (asset-backed securities) of 1,565 million euro, in CLOs (collateralised loan obligations) of 1,345 million euro and, for a residual amount, in CDOs (collateralised debt obligations) of 75 million euro, for which there were essentially no additional transactions during the period.
The exposure to ABSs and CLOs at fair value went from 3,019 million euro in December 2019 to 2,183 million euro in June 2020, a net decrease of 836 million euro, attributable to investments significantly lower than sales
The hedge fund portfolio as at 30 June 2020 amounted to 34 million euro in the trading book and 194 million euro in the banking book, compared to 115 million euro and 194 million euro, respectively, in December 2019. During the first half of 2020, disposals of positions were made for 80 million euro in the trading book in the first three months of the year to reduce 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 stable, with no major investments or disposals made during the half-year.
For further details regarding structured credit product business and the hedge fund portfolio, refer to the specific disclosures provided in the chapter "Risk management".

Global Markets and Investment Banking & Structured Finance

The first half of 2020 was marked by the COVID-19 pandemic, whose effects on the markets were mitigated by significant actions by the governments and central banks. In that context, for the Global Market Securities area, business in fixed income products was marked by extremely high volumes, with positive profitability, while the equity business recorded a period of very high volatility and, in the commodities business, oil fell to negative values. The Market Hub area launched operations on listed markets with a leading European financial institution, and achieved excellent results on the issue of the new BTP Italia.
The activities carried out by the Global Market Solutions and Financing Unit confirmed Banca IMI's leadership position in Italy both in the structuring and active management of financial risk and in the securitisation and asset-based financing sectors. The unit structured, financed and distributed solutions for its customers designed to optimise funding and economic and regulatory capital, deconsolidate performing and non-performing assets and improve the net financial position of its customers. The unit also consolidated the international presence of Banca IMI, financially supporting corporate and financial institution customers inside and outside Europe, as well as important foreign investors in the acquisition of granular portfolios or simply in favour of their operations, both in Italy and the main international jurisdictions.
For the Finance & Investments area, after an initial phase of expansion, the COVID-19 pandemic resulted in a change in strategy towards significant derisking, both in the banking book and trading book, with tactical hedging and actions aimed at managing the exceptional circumstances on the markets.
In the equity capital markets, Banca IMI maintained its usual oversight of Italian markets, acting in various roles in Accelerated Bookbuilding (ABB) transactions for the sale of a stake in the share capital of Nexi, in the convertible bond issue of Nexi and in the sale of a stake in the share capital of Inwit. In the area of takeover bids, Banca IMI acted as coordinator of collection of acceptances as part of the tender offers of Gamenet, Molmed and Gedi, which allowed the Bank to confirm its leadership role in takeover bids in Italy. In the international arena, Banca IMI took part in JDE Peet's IPO.
On the debt capital markets, Banca IMI acted as joint bookrunner in the bond issues of leading corporate investment grade and high yield issuers, both in Italy and abroad, also in foreign currency. In the Financial Institutions area, it acted as joint bookrunner in covered, senior unsecured, senior preferred and non-preferred, subordinate issues of leading Italian and international issuers. Banca IMI operated as joint bookrunner for the Republic of Italy in various issues, including BTP Italia, and for Cassa Depositi e Prestiti in the issue of the COVID-19 social response bond.
In relation to a general slowdown of the market, the Structured Finance team achieved significant results, maintaining leadership on the Italian market and a good competitive position in the larger EMEA area, specifically focusing on operations to support the Italian entrepreneurial system at a highly difficult time. Near the end of the half-year, there was a generalised recovery in origination activities in the various business segments, conducted with a selective approach, aimed at preserving the credit quality of loans, on one hand, and achieving adequate economic returns, on the other.
Through the Corporate Finance BdT desk, Banca IMI worked with the sales network in structuring various structured finance transactions.

International Subsidiary Banks

(millions of euro)

Income statement	30.06.2020	30.06.2019	changes	
			amount	%
Net interest income	653	679	-26	-3.8
Net fee and commission income	239	264	-25	-9.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	63	59	4	6.8
Other operating income (expenses)	-16	-16	-	-
Operating income	**939**	**986**	**-47**	**-4.8**
Personnel expenses	-261	-263	-2	-0.8
Other administrative expenses	-166	-164	2	1.2
Adjustments to property, equipment and intangible assets	-54	-52	2	3.8
Operating costs	**-481**	**-479**	**2**	**0.4**
Operating margin	**458**	**507**	**-49**	**-9.7**
Net adjustments to loans	-125	-27	98	
Other net provisions and net impairment losses on other assets	-	-4	-4	
Other income (expenses)	6	4	2	50.0
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**339**	**480**	**-141**	**-29.4**
Taxes on income	-76	-96	-20	-20.8
Charges (net of tax) for integration and exit incentives	-18	-14	4	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)	**245**	**370**	**-125**	**-33.8**

(millions of euro)

	30.06.2020	31.12.2019	changes	
			amount	%
Loans to customers	34,806	34,038	768	2.3
Direct deposits from banking business	44,109	43,420	689	1.6
Risk-weighted assets	32,554	32,916	-362	-1.1
Absorbed capital	3,407	3,457	-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 half of 2020, the Division's operating income came to 939 million euro, down (-4.8%) compared to the same period of the previous year (-5.7% at constant exchange rates). A detailed analysis shows that net interest income came to 653 million euro (-3.8%), mainly due to the trends reported by VUB Banka (-28 million euro), and PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (-13 million euro). Net fee and commission income, equal to 239 million euro, was down (-9.5%) mainly due to PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (-20 million euro). Among the other revenue components, profits (losses) on financial assets and liabilities designated at fair value, amounting to 63 million euro, increased on the first six months of 2019 (+6.8%) while other net operating costs, which were marginal in amount, remained stable.
Operating costs of 481 million euro increased slightly on the same period of 2019 (+0.4%; -0.2% at constant exchange rates) due to the growth of depreciation of property and equipment and amortisation of intangible assets and administrative expenses, only partially absorbed by lower personnel expenses.
As a result of the above revenue and cost trends, the operating margin decreased (-9.7%) to 458 million euro. Gross income, equal to 339 million euro, decreased by 29.4%, also due to higher adjustments to loans, primarily attributable to provisions relating to the COVID-19 pandemic. The Division closed the first half of 2020 with net income of 245 million euro (-33.8%).

In the second quarter of 2020, the operating margin was in line with the first quarter, driven by increased revenues, fully offset by an increase in operating costs. Gross income and net income were adversely impacted by the increase in adjustments to loans.

The Division’s intermediated volumes grew at the end of June 2020, compared to the beginning of the year (+1.9%) owing to both loans to customers (+2.3%) and direct deposits from banking business (+1.6%), in both amounts due to customers and securities issued. The trend in volumes was mainly attributable to subsidiaries operating in Slovakia, Croatia and Serbia.

In the first half of 2020, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, and information technology.
With the aim of reinforcing and optimising the international subsidiary banks' presence in their territories of reference, the implementation of the development plan of the Slovenian bank continued and the integration of the bank in Bosnia was completed, within the framework of the South-Eastern Europe Hub (Croatia, Bosnia and Slovenia). With regard to the Central Europe Hub (Slovakia, Czech Republic and Hungary), a new governance model was formulated, the alignment of the operating models and the strengthening of commercial synergies in the retail and corporate sectors continued and a strategic partnership between Slovakia-Czech Republic and Hungary was formalised. Lastly, integration activities have been completed in Moldova, while refocus activities continued in Ukraine.
In commercial dealings, the extension of the advisory model for investment services in Croatia and Slovenia to the entire sales network was completed, and the extension to Slovakia and Hungary is under way. With regard to the service model, in the first half of 2020 the extension of the target distribution model of the Group in Slovakia, Croatia, Serbia, Hungary, Slovenia, Romania, Albania and Bosnia continued (112 branches have already been converted).
In Information Technology, the target core banking system was adopted at the Serbian bank, the pilot phase has been launched in the Czech Republic and preliminary analysis in Slovakia continued. The transfer to Italy of the Hungarian bank’s data centre was completed, and the CRM system for the corporate and SMEs segment in Slovakia was completed.
With regard to digital services, functionalities and digital services continued to be expanded in Croatia, Hungary, Egypt, Slovenia and Albania in the first half of 2020. Preliminary analysis was begun in Slovakia and the detailed analysis and development phase are under way in Serbia, as well as detailed analysis in Romania.
Lastly, with regard to the development of Wealth Management operations in China, we note the launch of the business through the sale of the first financial products to High Net Worth Individual customers. Lastly, with regard to the establishment of the Securities Company, during the period the preliminary documentation for the application was submitted to the CSRC (China Securities Regulatory Commission) and contacts were launched with the local regulator. Moreover, the authorisation process (internal and with the Bank of Italy/ECB) was completed for the establishment of a service company in China to support the pre-opening costs of the Securities Company.

Business	It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.
Mission	Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division.
Organisational structure	
South-Eastern Europe Hub (SEE HUB)	Presence in Croatia, Bosnia-Herzegovina and Slovenia.
Central Europe Hub (CE HUB)	Presence in Slovakia, Hungary and the Czech Republic.
Other banks	Presence in Albania, Romania, Serbia, Egypt, Ukraine and Moldova.
Distribution structure	988 branches in 12 countries.

South-Eastern Europe Hub (SEE HUB)

In the first half of the year, the operating income of the **Privredna Banka Zagreb** group amounted to 210 million euro, down on the same period of 2019 (-13.7%), specifically due to the unfavourable performance of fee and commission income, net interest income and, to a lesser extent, net profits (losses) on financial assets and liabilities designated at fair value. Operating costs of 92 million euro decreased (-4.3%), due to the decreasing trends in all three components of expenditure. The operating margin came to 118 million euro (-19.9%). Gross income amounted to 82 million euro (-33.9%), also due to higher adjustments to loans; net income was 54 million euro (-42.2%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed the first half of 2020 with an operating margin of 11 million euro, down on the first half of the previous year (-11.5%). That trend is attributable to the decrease in operating income, which was not sufficiently offset by a reduction in operating costs. Gross income, amounting to 3.6 million euro, declined by 66.5%, while net income came to 2 million euro (-78.3%).

Intesa Sanpaolo Bank (Slovenia) reported an operating income of 33 million euro, down by 10.9% on the first half of 2019, mainly due to the drop in other net operating income and net fee and commission income. Operating costs decreased (-1.1%) compared with the same period of the previous year. Gross income, amounting to 3.5 million euro, decreased by 82.5%, particularly due to the increase in adjustments to loans. Net income was practically nil.

Central Europe Hub (CE HUB)

The **VUB Banka** Group reported an operating margin of 110 million euro, down on the first half of 2019 (-6.2%) as a result of a decrease in operating income (-3.7%), despite a decrease in operating costs (-1.1%). Gross income amounted to 74 million euro, down by 23.9%. Net income came to 24 million euro (-58.1%).

The **CIB Bank** Group recorded operating income of 83 million euro, up by 1.2% on the first half of 2019, due to the positive performance of net interest income. Operating costs decreased (-11.7%), especially personnel and administrative expenses. Net income came to practically nil, compared with income of 13 million euro in the same period of 2019, mainly due to greater net adjustments to loans.

Other banks

Intesa Sanpaolo Bank Albania (including Veneto Banka Sh.A.) reported an operating margin of 7.8 million euro, down on the first half of 2019 (-23.8%), due to the fall in revenues and the slight increase in operating costs. Gross income, amounting to 7.7 million euro, and net income (4.7 million euro) were lower than the figures relating to the same period of the previous year.

Intesa Sanpaolo Bank Romania reported an operating margin of 6.4 million euro, down on the same period of the previous year (-32.2%), due to the decrease in operating income (-11.4%), mainly attributable to lower profits (losses) on financial assets and liabilities designated at fair value and lower net fee and commission income, and higher costs (+2.7%). The company ended the first half of 2020 with net income of 3.4 million euro compared with 12 million euro in the first half of the previous year.

Banca Intesa Beograd, including Intesa Leasing Beograd, generated an operating margin of 77 million euro, down 11.7% on the first half of 2019. Operating income decreased by 5.7%, primarily due to the unfavourable performance of other net operating income and fee and commission income. Operating costs increased (+5.9%) compared with the first half of the previous year. Gross income amounted to 58 million euro (-22.2%), while net income was 41 million euro (-27.1%).

Bank of Alexandria, which benefited from the revaluation of the Egyptian pound, reported an operating margin of 102 million euro, up by 1.2% on the first half of the previous year (-9.5% at constant exchange rates). Operating income of 179 million euro increased (+7.4%, -3.9% at constant exchange rates), primarily due to the positive performance of net interest income. Operating costs rose (+17%; +4.7% at constant exchange rates) across all expense captions. Net income came to 72 million euro, down by 4.9% on the first half of 2019 (-15% at constant exchange rates).

Pravex reported a negative operating margin of -2 million euro, compared with -1.6 million euro in the same period of the previous year, as a result of the decrease in operating income (-5.3%), mainly attributable to the negative performance by net interest income, despite a slight decrease in operating costs (-0.7%), particularly amortisation of intangible assets and depreciation of property and equipment. The net loss, amounting to -1.7 million euro, was lower than in the first half of the previous year.

Eximbank generated a positive operating margin of 0.9 million euro, up 9.8% on the first half of 2019, due to the growth in operating income, which offset the increase in operating costs. Net income, amounting to 1.1 million euro, decreased by 43% compared to the first half of 2019, mainly due to higher adjustments to loans.

Private Banking

(millions of euro)

Income statement	30.06.2020	30.06.2019	changes	
			amount	%
Net interest income	102	89	13	14.6
Net fee and commission income	840	843	-3	-0.4
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	11	28	-17	-60.7
Other operating income (expenses)	2	2	-	-
Operating income	**955**	**962**	**-7**	**-0.7**
Personnel expenses	-165	-168	-3	-1.8
Other administrative expenses	-97	-93	4	4.3
Adjustments to property, equipment and intangible assets	-29	-27	2	7.4
Operating costs	**-291**	**-288**	**3**	**1.0**
Operating margin	**664**	**674**	**-10**	**-1.5**
Net adjustments to loans	-18	-2	16	
Other net provisions and net impairment losses on other assets	-22	-23	-1	-4.3
Other income (expenses)	6	9	-3	-33.3
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**630**	**658**	**-28**	**-4.3**
Taxes on income	-195	-184	11	6.0
Charges (net of tax) for integration and exit incentives	-7	-9	-2	-22.2
Effect of purchase price allocation (net of tax)	-1	-1	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**427**	**464**	**-37**	**-8.0**

(millions of euro)

	30.06.2020	31.12.2019	changes	
			amount	%
Assets under management [(1)]	120,987	122,660	-1,673	-1.4
Risk-weighted assets	9,490	9,184	306	3.3
Absorbed capital	869	794	75	9.4

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

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

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

In the first half of 2020, the Division generated gross income of 630 million euro, down by 28 million euro (-4.3%) compared with the first half of 2019, due to the reduction in operating income (-7 million euro), the increase in operating costs (+3 million euro) and higher net adjustments to loans (+16 million euro).
The trend in revenues is essentially attributable to the reduction in net income (loss) of financial assets (-17 million euro) due to lower capital gains through the sale of debt securities in the fair value through other comprehensive income portfolio. Net fee and commission income was substantially stable (-3 million euro) due to higher placement fee and commission income on mutual funds, which offset the decrease in recurring fee and commission income following the repositioning of customer investments on products with lower profitability. Net interest income moved in the opposite direction (+13 million euro), due to growth in average volumes invested in proprietary portfolios and in treasury time deposits. The Division closed the first half of 2020 with net income of 427 million euro, down 8% on the first six months of the previous year.

The values of assets gathered have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.

As at 30 June 2020, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 198.5 billion euro (-5 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. Net inflows moved in the opposite direction, providing a positive contribution compared to the first half of the previous year. The assets under management component amounted to 121 billion euro (-1.7 billion euro).

In the first half of 2020, as part of the process of simplifying the Group structure, the merger by incorporation of Morval SIM into Intesa Sanpaolo Private Banking and the liquidation of Morval Vonwiller Assets Management Co. Ltd were started. Moreover, the equity investment in Morval Vonwiller Advisors S.A. was transferred to Intesa Sanpaolo Private Bank (Suisse) Morval by the sub-holding Southern Group Ltd and the liquidation of the latter was started.

Business	Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.
Mission	Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations.
Organisational structure	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of 4,845 Fideuram and Sanpaolo Invest private bankers.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of 901 private bankers, mostly employees.
Intesa Sanpaolo Private Bank (Suisse) Morval	Bank dedicated to developing international private customers, which operates through a group of companies specialising in wealth management and private banking, through 55 private bankers.
SIREF Fiduciaria	Company specialised in the provision of fiduciary services.
Distribution structure	Network of 228 branches in Italy, 4 branches abroad and 5,801 private bankers.

Asset Management

(millions of euro)

Income statement	30.06.2020	30.06.2019	Changes amount	Changes %
Net interest income	-	-	-	-
Net fee and commission income	343	342	1	0.3
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	-4	4	-8	
Other operating income (expenses)	16	18	-2	-11.1
Operating income	**355**	**364**	**-9**	**-2.5**
Personnel expenses	-35	-36	-1	-2.8
Other administrative expenses	-32	-33	-1	-3.0
Adjustments to property, equipment and intangible assets	-3	-3	-	-
Operating costs	**-70**	**-72**	**-2**	**-2.8**
Operating margin	**285**	**292**	**-7**	**-2.4**
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)	**285**	**292**	**-7**	**-2.4**
Taxes on income	-73	-66	7	10.6
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)	**212**	**226**	**-14**	**-6.2**

(millions of euro)

	30.06.2020	31.12.2019	changes amount	changes %
Assets under management	257,900	265,813	-7,913	-3.0
Risk-weighted assets	1,367	1,446	-79	-5.5
Absorbed capital	155	146	9	6.2

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 half of 2020, amounting to 355 million euro, decreased by 2.5% 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 slightly (+0.3%), specifically incentive fees, which offset the drop in recurring fee and commission income, penalised by the trend and the asset mix of assets under management as a result of the pandemic. Operating costs reported a decrease (-2.8%), 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, and in relation to the crisis that slowed down usual trends in expenditure. As a result of the above revenue and cost trends, the operating margin came to 285 million euro, down 2.4% on the same period of the 2019 The Division closed the first half of 2020 with net income of 212 million euro (-6.2%).

Overall, the total assets under management by the Asset Management Division at 30 June 2020 came to 257.9 billion euro, down by 7.9 billion euro (-3%) compared to 31 December 2019, mostly attributable to the market trends resulting from the spread of the COVID-19 pandemic. In the first six months of 2020, net outflows came to 2.2 billion euro, compared to -2.8 billion euro in the same period of the previous year. The outflows in the half-year were the result of products dedicated to institutional customers including insurance mandates (-1.4 billion euro) and, to a lesser extent, mutual funds (-0.6 billion euro) and portfolio management schemes for retail and private customers (-0.2 billion euro). In the second quarter there was an increase in assets under management, driven by the positive performance of the markets, which recovered a portion of the negative effects of the pandemic.

As at 30 June 2020, Eurizon Capital’s Italian market share of assets under management was 14.5% (gross of duplications), up 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 June rose to 14.9%.

Business	Asset management.
Mission	To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors.
Organisational structure	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon SGR	Specialised in active portfolio management on quantitative bases. It is a 100% subsidiary of Eurizon Capital SGR.
Eurizon Capital Real Asset SGR	Specialised in alternative investments. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Intesa Sanpaolo Vita.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital SGR, established to develop consulting activities on financial instruments, portfolio management and distribution in the Asian market.
Eurizon Asset Management Slovakia (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital SGR, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
PBZ Invest d.o.o. (Croatia)	A Croatian asset management company and wholly owned subsidiary of the Slovak company Eurizon Asset Management Slovakia. It promotes and manages Croatian mutual funds and offers individual portfolio management services to retail and institutional customers.
CIB Investment Fund Management Ltd (Hungary)	A Hungarian asset management company and wholly owned subsidiary of the Slovak company Eurizon Asset Management Slovakia. It promotes and manages Hungarian mutual funds and offers individual portfolio management services to retail and institutional customers.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, which conducts research and provides investment and advisory services.
Oval Money Ltd	An Italian-English FinTech finance start-up primarily active in the personal finance management services sector, in which Eurizon Capital SGR holds a 12.25% interest.
Penghua Fund Management Company Limited	Chinese fund manager 49%-owned by Eurizon Capital SGR.

Insurance

(millions of euro)

Income statement	30.06.2020	30.06.2019	Changes amount	%
Net interest income	-	-	-	-
Net fee and commission income	1	-	1	-
Income from insurance business	674	599	75	12.5
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-5	-5	-	-
Operating income	**670**	**594**	**76**	**12.8**
Personnel expenses	-48	-45	3	6.7
Other administrative expenses	-53	-53	-	-
Adjustments to property, equipment and intangible assets	-7	-5	2	40.0
Operating costs	**-108**	**-103**	**5**	**4.9**
Operating margin	**562**	**491**	**71**	**14.5**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-9	-	9	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**553**	**491**	**62**	**12.6**
Taxes on income	-156	-129	27	20.9
Charges (net of tax) for integration and exit incentives	-8	-	8	-
Effect of purchase price allocation (net of tax)	-9	-8	1	12.5
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-53	-30	23	76.7
Net income (loss)	**327**	**324**	**3**	**0.9**

(millions of euro)

	30.06.2020	31.12.2019	changes amount	%
Direct deposits from insurance business (1)	163,928	165,953	-2,025	-1.2
Risk-weighted assets	-	-	-	-
Absorbed capital	3,943	3,676	267	7.3

(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** includes Intesa Sanpaolo Vita, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo Assicura and Intesa Sanpaolo RBM Salute, with the mission of synergically developing the insurance product mix targeting Group customers.

In the first half of 2020, the Division reported income from insurance business of 674 million euro, up 75 million euro (+12.5%) 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 six months of the previous year – was mainly attributable to the increase in revenues linked to the non-life business, also due to lower claims recorded during the period of lockdown as a result of the COVID-19 emergency.
Gross income amounted to 553 million euro, up by 62 million euro (+12.6%), due to the aforementioned increase in operating income, partially offset by a slight increase in operating costs (+4.9%) and the adjustments to other assets made as a result of the difficult market scenario.
The cost/income ratio, at 16.1%, remained at excellent levels, down on the figure reported for the first half of 2019.
Lastly, net income, after the attribution of taxes of 156 million euro, charges for integration and exit incentives of 8 million euro, effects of purchase price allocation for 9 million euro and minority interests for 53 million euro, amounted to 327 million euro (+0.9%).

Direct deposits from insurance business, amounting to 163,928 million euro, were down compared to the beginning of the year (-1.2%, or -2 billion euro), due to the decrease in financial liabilities measured at fair value, only partially offset by the growth in technical reserves and other deposits.

The Division's collected premiums for life policies and pension products amounted to 6.9 billion euro, down 13% on the same period of last year: collected premiums for traditional products, dedicated to specific clusters of customers, decreased by 10%, and unit-linked products by 17%. Conversely, pension products grew slightly.

Collected premiums for the protection business totalled 605 million euro, down by 1% on the first six months of 2019. There was an increase in non-motor products (excluding CPI – Credit Protection Insurance), which are the focus of the 2018-2021 Business Plan, up by 7%.

In May 2020, with the acquisition of control of RBM Assicurazione Salute (now Intesa Sanpaolo RBM Salute), approved by the Boards of Directors of Intesa Sanpaolo and Intesa Sanpaolo Vita in December 2019, the non-life insurance company joined the Intesa Sanpaolo Vita insurance group.
As a result of this transaction, a distinctive health care offering was created, leveraging the capabilities of RBM Assicurazione Salute and the geographic reach of the Intesa Sanpaolo networks. The insurance company takes care of patients from the largest Italian companies, the main contractual supplementary health funds, welfare funds, public entities and professional bodies, and individuals that have chosen this company to protect their health. In 2019, collected premiums of RBM Assicurazione Salute came to 577 million euro, with over 4 million euro insured parties.

Business	Life and Non-Life Insurance.
Mission	Develop the offering of insurance products for the Group's customers.
Organisational structure	
Intesa Sanpaolo Vita	Insurance parent company specialised in offering insurance, pension and personal and asset protection services within Banca dei Territori. The company is the sole owner of Intesa Sanpaolo Life and Intesa Sanpaolo Assicura and has a 49% interest in Intesa Sanpaolo Smart Care, a 51% owned subsidiary of Intesa Sanpaolo (Banca dei Territori Division) that markets hardware and software and provides remote assistance services. In May 2020, Intesa Sanpaolo Vita acquired control of RBM Assicurazione Salute.
Intesa Sanpaolo Life	Specialised in life insurance products with a higher financial content, such as unit-linked products.
Intesa Sanpaolo Assicura	Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection.
Intesa Sanpaolo RBM Salute	Specialised in the health care business.
Fideuram Vita	Specialised in offering insurance, pension and personal and asset protection products in service of the Private Banking Division.

Corporate Centre

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

The Corporate Centre Departments generated a negative operating margin of 848 million euro in the first half of 2020, compared to -433 million euro in the corresponding period of the previous year. That performance is essentially attributable to the declining trend in operating income, largely attributable to the drop in the profits (losses) on financial assets and liabilities designated at fair value which, in the first half of 2019, benefited from significant capital gains. A negative contribution was also provided by interest income, due to the higher cost of excess liquidity in view of the decrease in short-term market rates, always on negative ground, and fee and commission income, mainly due to the increase in guarantees received on credit risk hedging transactions. The operating costs, net of the amount charged back to the business units for the performance of the servicer activities, governed by specific agreements, were at lower levels than those of the same period of 2019. Gross income, equal to 130 million euro, reached positive values, due to the economic effects of the transfer of the business line consisting of the acquiring activities to Nexi (1,163 million euro). The half year ended with net income of 83 million euro, compared to the loss of 524 million euro recorded in the same period of the previous year. The income statement of the Corporate Centre includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking industry and consequently outside the company management. These charges, essentially consisting of contributions to the resolution funds, amounted to 277 million euro, after tax, up compared with the 242 million euro for the first six months of 2019.

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 half 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 as regards the Target2 Securities platform (securities). The unexpected, quick escalation of the COVID-19 pandemic led the Bank to implement remote working in extremely high percentages, without negative impacts on any type of operations.
The emergency situation, combined with the difficulties caused by SWIFT postponing the adoption of the new communications language (ISO 20022), also adopted by the new Target2, led the ECB to agree to the request from the European Banking system to postpone the launch of the new settlement platform to November 2022. This delay will impact all the projects related to Consolidation. Specifically, at the end of July the ECB announced the new timeline for the ECMS project, the new Eurosystem-wide centralised collateral management system, which will entail the involvement, though marginal, of the Payments Area.

The first half of 2020, characterised by the global spread of COVID-19, led most governments to close businesses and confine the population to their homes, in order to reduce opportunities for contagion. At the same time, the various central banks injected liquidity into the market and introduced numerous measures to combat the negative effects on the economy and preserve the transmission of liquidity within their monetary systems.
Specifically, despite not acting on benchmark rates, the ECB intervened by providing useful instruments to support banks’ liquidity by increasing Quantitative Easing, introducing more advantageous conditions for TLTRO III auctions, creating new LTRO auctions and, above all, announcing the instrument deemed most effective in combating the current crisis: the Pandemic Emergency Purchase Programme. This temporary measure (up to June 2021) allows the ECB to purchase securities of the various European countries up to a maximum of 1,350 billion euro and features greater flexibility compared to the previous initiatives of Quantitative Easing.
The FED intervened on the market by cutting benchmark rates to a record low of 0%-0.25% and introducing various measures to guarantee unlimited liquidity on the market. The measures implemented by central banks, combined with numerous other more specific measures aimed at specific market segments, made it possible to reduce the sharp volatility that characterised March and April, enabling the Euribor curve, which initially rose in line with the growth in risk aversion, to gradually return to normal. The 12-month levels thus rose, in one month, from a minimum of -0.368% in mid-March to a maximum of -0.05% in mid-April, while the Eonia curve, after reaching a low of -0.671% in mid-March rose to around -0.50%, remaining at that level after the ECB made it clear that it intended to keep its benchmark rates stable. The spread between the Euribor curve and the Eonia curve, a well-known indicator of market stress, thus reached its high of the 3 months, at 30 bps at the end of April, to then slowly return near pre-crisis levels of 7 bps. In the initial months of 2020, the excess liquidity in the Eurozone remained on average at around 1,800 billion euro, to then increase in the last two months of the half-year, following the various actions taken by the ECB, firstly at around 2,100 billion euro and then, following the settlement of the TLTRO III auction in June, at 2,700 billion euro. Given the highly favourable conditions, that auction had record participation of 742 banks, for 1,308 billion euro (of which more than 550 billion euro as new liquidity, net of repayments of the TLTRO II).

With regard to Intesa Sanpaolo’s short-term securities funding in euro and foreign currency, near mid-March there was a sudden interruption of issues, and several requests for repurchase, which resulted in a reduction of the outstanding issues. Due to the effective interventions by central banks, and thanks to containment of the virus, production activities, as well as the entire economic fabric restarted, improving economic indicators, after these had reached their all-time lows. As a result, given the improvement in the economic and financial scenario, many investors once again showed greater interest in our securities issues, including 6-12 month issues.

In the first half, 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 3.5 billion euro. Among the securities placed, there was a prevalence (73%) of the component consisting of structured financial instruments, largely comprised of index-linked structures. A breakdown by average maturity shows that 19% is comprised of instruments with maturities up to 4 years, 79% is represented by 5-, 6- and 7-year securities, and the remaining 2% by 8- and 10-year securities. In particular, the Private Banking Division network placed two subordinated Tier 2 bond issues with a 7-year duration, targeted to professional customers and qualified investors, for a total amount of around 900 million euro. The securities are traded on the professional segment (ExtraMOT PRO) of the ExtraMOT market.

During the period, institutional unsecured funding transactions were completed for a total of around 4.3 billion euro, of which: around 3.8 billion euro through senior and subordinate bond issues (public transactions and private placements) placed on the Euromarket and 0.5 billion euro through the issue of Banca IMI bonds and certificates placed with institutional investors. Specifically, the following public transactions were carried out, targeted to institutional investors: in January, 350 million GBP (equal to around 413 million euro) in fixed-rate senior preferred unsecured bonds targeted to the UK and European markets. In February, 1.5 billion euro in subordinate, fixed-rate, AT1 perpetual bonds were issued. 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 (5.125% of CET1), taking into account also the other instruments with similar characteristics. In May, 1.25 billion euro in senior preferred fixed-rate securities was issued, with a maturity of 5 years, intended for institutional investors. In June, a private placement in Club Deal of 350 million GBP (equal to around 393 million euro) was carried out in subordinate T2 fixed-rate bonds targeted to the UK and European markets.

In the first half 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 are floating rate with a maturity of 13 years for the 38th series and 14 years for the 39th and 40th series, respectively. The securities for the 41st and 42nd series were issued in April, each amounting to 2.4 billion euro, floating rate, with a maturity of 15 years. Two additional series, the 43rd and 44th, were then issued in June, each amounting to 1.35 billion euro, floating rate, with maturities of 8 and 16 years, respectively. All securities in the series issued are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS, were fully subscribed by the Parent Company and are eligible with the Eurosystem. With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was partially redeemed (for an amount of 550 million euro) in January, 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: the security has an Aa3 rating from Moody’s, is a floating rate, 11-year security listed on the Luxembourg Stock Exchange, was fully subscribed by the Parent Company and is eligible for the Eurosystem. A new securitisation on a portfolio of consumer credit loans was completed in June by the special purpose vehicle company Clara Sec., which issued two classes of notes for a total of 7.2 billion euro, subscribed by Intesa Sanpaolo. Only the senior class, amounting to 6.35 billion euro, with an A (High) rating from DBRS and A1 from Moody’s, was made eligible with 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 30 June 2020, the outstanding amount, gross of haircuts applicable to loans lodged as pledge by the Group, came to around 17.5 billion euro.

For the liquidity portfolio, in January, the temporary compression of credit spreads permitted a rotation of asset allocation on government and corporate markets. At the same time, portfolio operations were extended, for the purpose of management in a market phase in which the benefit of diversification suddenly no longer applied. Once the March peak was overcome, volatility decreased on the bond market. The measures by the FED and the ECB restored the correlations typical of the phases of ordinary operation of the markets, restoring effectiveness to the usual portfolio diversification strategies.

With regard to the repo market, volumes of Italian government bonds traded decreased compared to the end of the previous year, while interest rates came to levels slightly higher than the depo facility. The spread between government rates in core countries and Italian rates widened in March, as a result of the more general tensions on the markets due to COVID-19. The spread tightened significantly in the following months. Near the end of the half-year, there was limited volatility in repo rates of core countries, and no tension on Italian General Collateral (GC) rates.

Strategic ALM

With regard to the Group's Asset & Liability Management (ALM), operational management of the financial risks of the Group's banking book is carried out under the supervision of the CRO Area. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve; moreover, specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group Financial Risk Committee within the limits established by the Board of Directors: the Group Treasury & Finance structure actively supports the Committee's decision-making activity by formulating analyses and proposals. The structural component of liquidity risk is managed, based on the liquidity policies defined at Group level, by monitoring the current and future short and long-term liquidity balances, defining the funding plan on the various channels and instruments (domestic/international, retail/corporate, secured/unsecured, preferred/non preferred/subordinate), as well as the loan-deposit gap targets of the business units.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
30.06.2020	7,175	1,511	389	9,075
30.06.2019	7,340	1,366	369	9,075
% change	-2.2	10.6	5.4	-
Loans to customers				
30.06.2020	327,703	57,186	18,448	403,337
31.12.2019	322,977	54,694	17,558	395,229
% change	1.5	4.6	5.1	2.1
Direct deposits from banking business				
30.06.2020	365,569	63,169	9,068	437,806
31.12.2019	351,849	65,056	8,607	425,512
% change	3.9	-2.9	5.4	2.9

Breakdown by geographical area is carried out with reference to the location of Group entities.

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

With regard to the subdivision by geographical areas of operations, carried out with regard to the location of the entities comprising the Group, activities continued to be concentrated primarily in the Italian market. Italy accounted for 79% of revenues, 81% of loans to customers and 84% of direct deposits from banking business.
Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation, Ukraine, Moldova and in the Mediterranean area (Egypt).
With regard to operating performance in the first half of 2020, loans to customers increased in all areas of operation, whilst direct deposits from banking business grew in Italy and the rest of the world and showed a slight downturn in Europe. Finally, revenues showed a downturn in Italy, sustained growth in Europe and an increase – albeit to a modest extent in absolute terms – in the rest of the world.

Risk management

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[17], 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 Tableau de Bord of the Group Risks. 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.

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

THE BASEL 3 REGULATIONS

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.
The Bank, in agreement with the Supervisory Authorities, is currently assessing the impacts of the decision both 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) continued in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

The situation as at 30 June 2020 is shown in the following table:

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Sovereign	Shadow model based on agency rating	Model based on recovery rates estimated by rating agencies	Regulatory parameters	Used for management purposes only; Standardised approach for reporting purposes
Institutions	Default model (Banks) (4)	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate)	CCF/K factor model (Corporate)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 (1)
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	IRB Retail since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) ISP authorised for FIRB from December 2008, for LGD AIRB from December 2010 and for EAD from 2017, Banca IMI (2012), ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). From 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%
2) VUB authorised from June 2012 for PD and LGD of Retail Mortgage models
3) VUB authorised from June 2014
4) ISP and Banca IMI authorised from 2017

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

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

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 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.

CREDIT RISK

The Intesa Sanpaolo Group's strategies, powers and rules for credit granting and management are aimed at:

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

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

There were no changes relating to the authorisations for the models to be applied to the specific portfolios with respect to 31 December 2019.

Credit quality

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

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

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

(millions of euro)

Captions	30.06.2019			31.12.2019			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	17,585	-11,186	6,399	19,418	-12,678	6,740	-341
Unlikely to pay	11,092	-4,457	6,635	10,995	-4,257	6,738	-103
Past due loans	1,177	-200	977	886	-142	744	233
Non-Performing Loans	**29,854**	**-15,843**	**14,011**	**31,299**	**-17,077**	**14,222**	**-211**
Non-performing loans in Stage 3 (subject to impairment)	*29,809*	*-15,827*	*13,982*	*31,257*	*-17,062*	*14,195*	*-213*
Non-performing loans designated at fair value through profit or loss	*45*	*-16*	*29*	*42*	*-15*	*27*	*2*
Performing loans	**385,349**	**-2,191**	**383,158**	**376,839**	**-1,697**	**375,142**	**8,016**
Stage 2	*62,959*	*-1,442*	*61,517*	*41,146*	*-1,068*	*40,078*	*21,439*
Stage 1	*321,554*	*-749*	*320,805*	*334,973*	*-629*	*334,344*	*-13,539*
Performing loans designated at fair value through profit or loss	*836*	*-*	*836*	*720*	*-*	*720*	*116*
Performing loans represented by securities	**6,173**	**-27**	**6,146**	**5,875**	**-34**	**5,841**	**305**
Stage 2	*2,809*	*-21*	*2,788*	*2,972*	*-30*	*2,942*	*-154*
Stage 1	*3,364*	*-6*	*3,358*	*2,903*	*-4*	*2,899*	*459*
Loans held for trading	**22**	**-**	**22**	**24**	**-**	**24**	**-2**
Total loans to customers	**421,398**	**-18,061**	**403,337**	**414,037**	**-18,808**	**395,229**	**8,108**
of which forborne performing	***6,106***	***-236***	***5,870***	***5,918***	***-255***	***5,663***	***207***
of which forborne non-performing	***6,777***	***-2,869***	***3,908***	***7,157***	***-3,119***	***4,038***	***-130***
Loans to customers classified as discontinued operations (*)	**168**	**-11**	**157**	**475**	**-93**	**382**	**-225**

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

(*) As at 30 June 2020, this caption included the portfolio of unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 168 million euro, total adjustments of 11 million euro, net exposure of 157 million).

As at 30 June 2020, the Group's net non-performing loans amounted to 14 billion euro, down by 1.5% compared with the beginning of the year, continuing the progressive decline that marked 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 (53.1%).

In further detail, at the end of June 2020 bad loans came to 6.4 billion euro net of adjustments (down by -341 million euro on the beginning of the year, or -5.1%), and represented 1.6% of total loans. During the same period, the coverage ratio came to 63.6%. 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 40.2%. Past due loans amounted to 977 million euro (+31.3%), with a coverage ratio of 17%. 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 42.3%, while forborne exposures in the performing loans category amounted to 5.9 billion euro.
The coverage ratio for performing loans rose to 0.6% as a result of 730 million euro of prudential provisions due to the revision of the scenario. These were in addition to approximately 150 million euro of adjustments to non-performing loans, bringing the total provisions due to the revision of the scenario following the COVID-19 pandemic to approximately 880 million euro.

Counterparty risk

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

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

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

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

MARKET RISKS

TRADING BOOK

The quantification of trading risks (managerial calculation scope) is based on daily and periodic analysis of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:
– interest rates;
– equities and market indexes;
– investment funds;
– foreign exchange rates;
– implied volatilities;
– spreads in credit default swaps (CDSs);
– spreads in bond issues;
– correlation instruments;
– dividend derivatives;
– asset-backed securities (ABSs);
– commodities.
Some Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall management risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.

Managerial VaR

The analysis of market risk profiles relative to the trading book (managerial scope) uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
In line with what has been approved by the BoD, with regard to the VaR limits for legal entities, the managerial VaR of the held-for-trading component includes the HTCS portfolio for Banca IMI

Sensitivity and greeks

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

Level measures

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

Stress tests

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

Internal model validation
For some of the risk factors included in the managerial VaR measurements, with regard to the regulatory trading book, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of both Intesa Sanpaolo and Banca IMI.
More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI and the hedge fund portfolios of the Parent Company (look through approach), (iii) position risk on dividend derivatives and (iv) commodity risk for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

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

While using the historical simulation approach for VaR calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of this document, the period for the measurement of Stressed VaR was from 11 October 2011 to 28 September 2012 for both Intesa Sanpaolo and Banca IMI.

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

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

Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI [(a)]
During the second quarter of 2020, managerial market risks (inclusive of the HTCS portfolio for Banca IMI) generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the first quarter of 2020. The Group's average managerial VaR for the period was 363.5 million euro compared to 174.8 million euro in the previous quarter. The Group’s average VaR for the period on the trading component only was 85.6 million euro, an increase on the previous quarter. The increase in managerial VaR – mainly determined by Banca IMI – derives from an increase in the risk measures, mainly attributable to the health emergency caused by the COVID-19 pandemic.

(millions of euro)

	2020				2019			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo Trading	37.9	34.2	42.6	15.0	13.1	16.8	15.0	16.9
Banca IMI Trading & HTCS	325.6	301.5	356.3	159.8	107.2	128.5	149.0	160.1
of which Trading Book IMI	*47.7*	*29.7*	*57.0*	*26.1*	*27.8*	*28.4*	*27.9*	*34.2*
Total	**363.5**	**337.7**	**394.9**	**174.8**	**120.2**	**145.3**	**164.0**	**177.0**
of which Group Trading Book (a)	***85.6***	***66.6***	***97.4***	***41.1***	***40.8***	***45.2***	***42.9***	***51.1***

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

(a) The Group Trading Book figure has been calculated as the sum of the managerial VaR of Intesa Sanpaolo and the managerial VaR of Banca IMI (trading book scope).

Managerial market risks for the first half of 2020 (equal to 269.9 million euro) were up at Group level compared to the first half of 2019 (170.4 million euro); at the level of the trading component only (63.5 million euro), there was an increase in the Group's total risks. The performance of this indicator – mainly determined by Banca IMI – once again derives from an increase in the risk measures, mainly attributable to the health emergency caused by the COVID-19 pandemic.

(millions of euro)

	2020			2019		
	average 1st half	**minimum 1st half**	**maximum 1st half**	**average 1st half**	**minimum 1st half**	**maximum 1st half**
Intesa Sanpaolo Trading	26.5	10.1	42.6	16.0	13.4	19.0
Banca IMI Trading & HTCS	243.3	85.0	356.3	154.4	102.5	192.3
of which Trading Book IMI	*37.0*	*20.7*	*57.0*	*31.0*	*24.6*	*38.4*
Total	**269.9**	**95.6**	**394.9**	**170.4**	**116.6**	**208.8**
of which Group Trading Book (a)	***63.5***	***31.0***	***97.4***	***47.0***	***40.0***	***57.1***

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

(a) The Group Trading Book figure has been calculated as the sum of the managerial VaR of Intesa Sanpaolo and the managerial VaR of Banca IMI (trading book scope).

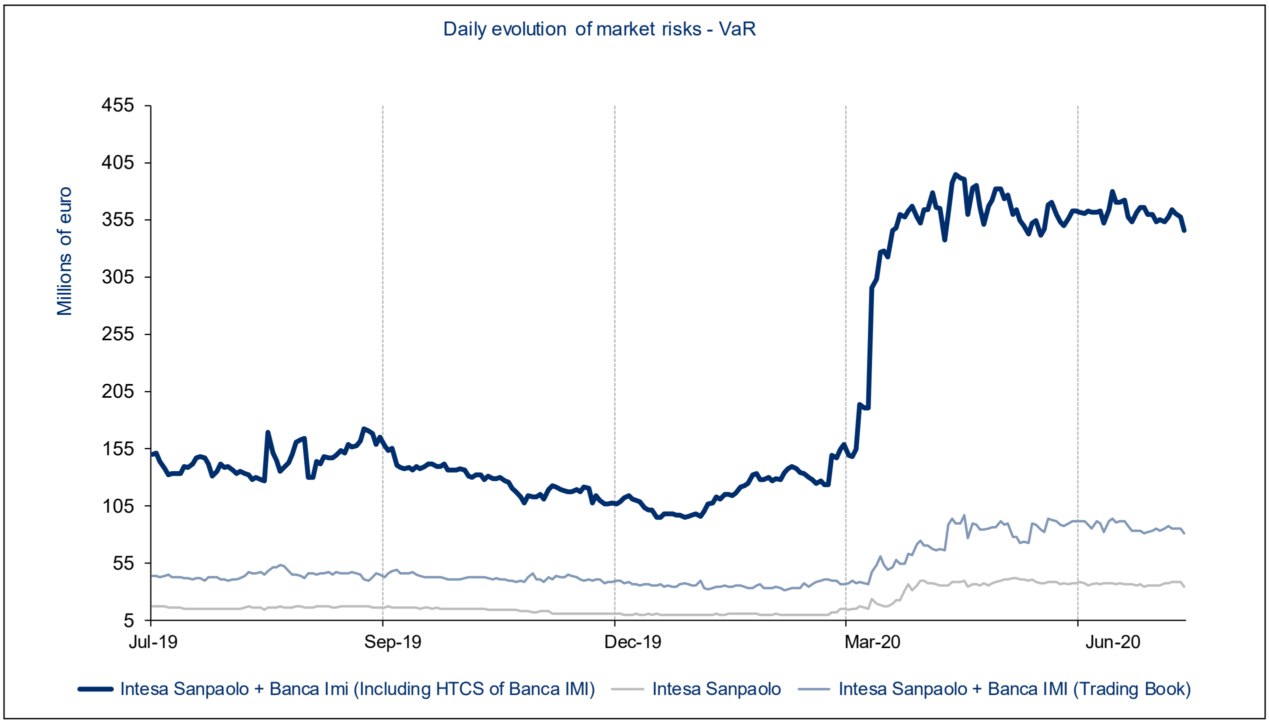
The breakdown of the risk profile in the second quarter of 2020 with regard to the different factors shows the prevalence of the risk generated by the credit spread, which accounted for 81% of the total managerial VaR for the Group (67% for the trading component only), 70% for Intesa Sanpaolo and 82% for Banca IMI.

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

2nd quarter 2020	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange	Other parameters	Commodities
Intesa Sanpaolo	1%	1%	11%	70%	17%	1%	0%
Banca IMI	3%	0%	12%	82%	1%	2%	0%
Total	**2%**	**0%**	**12%**	**81%**	**2%**	**2%**	**0%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall VaR, calculated as the average of daily estimates in the second quarter of 2020, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

The VaR trend in the first half of 2020 is primarily attributable to Banca IMI. In January risks increased by approximately 37% overall, owing 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). Finally, the measure was generally stable in the last quarter: in further detail, given the reduced financial market volatility observed in the second quarter, the stability of the managerial VaR figure may be attributed to both an overall stable portfolio and to the absence of new scenarios in the tail end of the distribution (managerial VaR is calculated using a weighted historical simulation with a 99% confidence interval and a time horizon of 1 day). Lastly, it should be noted that following the aforementioned revision of the Risk Appetite Framework within the environment resulting from the COVID-19 epidemic, the managerial VaR figure remained constantly within the pre-established limits.



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 June is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	1	-3	-211	115	898	-858	22	-5	-	-2
of which HTCS of Banca Imi	-	-	*-205*	*124*	*786*	*-750*	-	-	-	-

In particular:
- for stock market positions, there would be a loss of 3 million euro in the event of a sharp rise in equity prices and a decrease in volatility;
- for positions in interest rates, there would be a loss of -211 million euro in the event of an increase in rate curves of 40 bps (of which -205 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 858 million euro (of which -750 million euro attributable to Banca IMI's HTCS portfolio);
- for positions in exchange rates, there would be a loss of 5 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

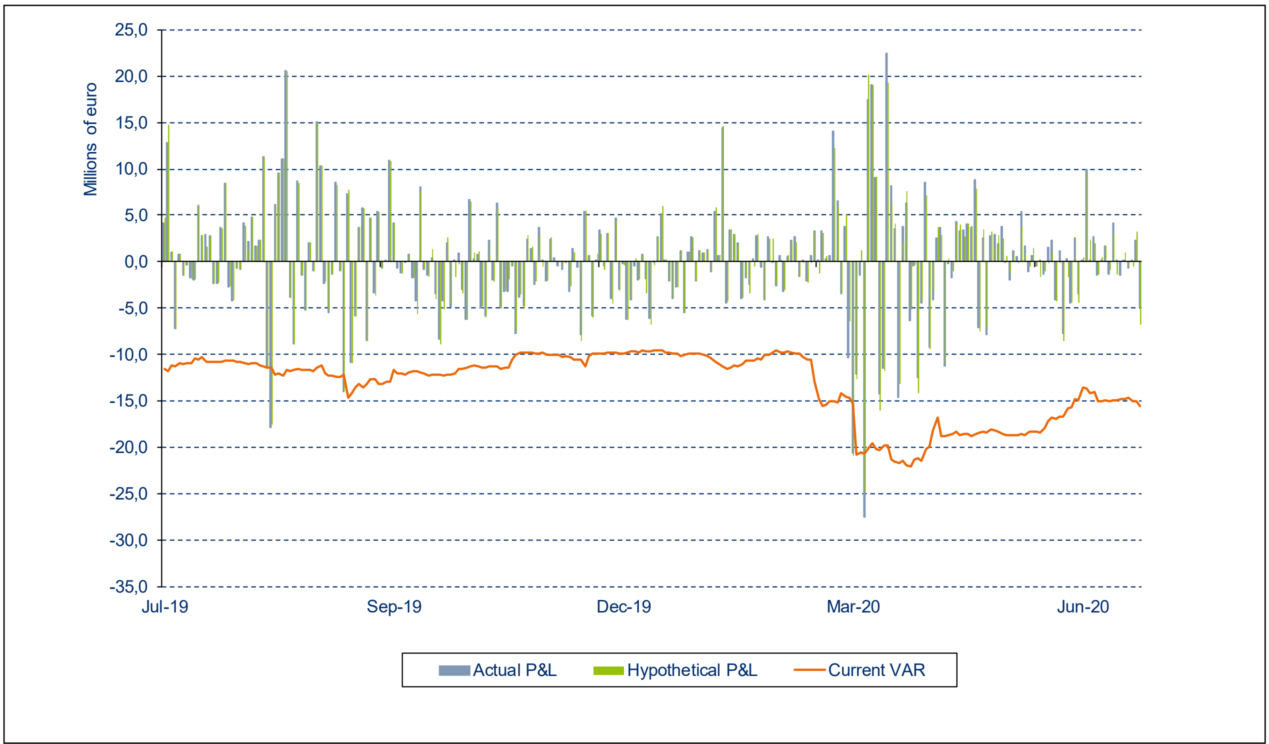
The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual 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 within the managerial area.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series.

As at 30 June 2020, the ISP Group did not benefit from the exclusion of overshootings from the calculation of the backtesting addend in view of the COVID-19 pandemic (Reg. 2020/873, Art. 500c). The exceptions set out below are the only cases recorded by the legal entities over the last twelve months.

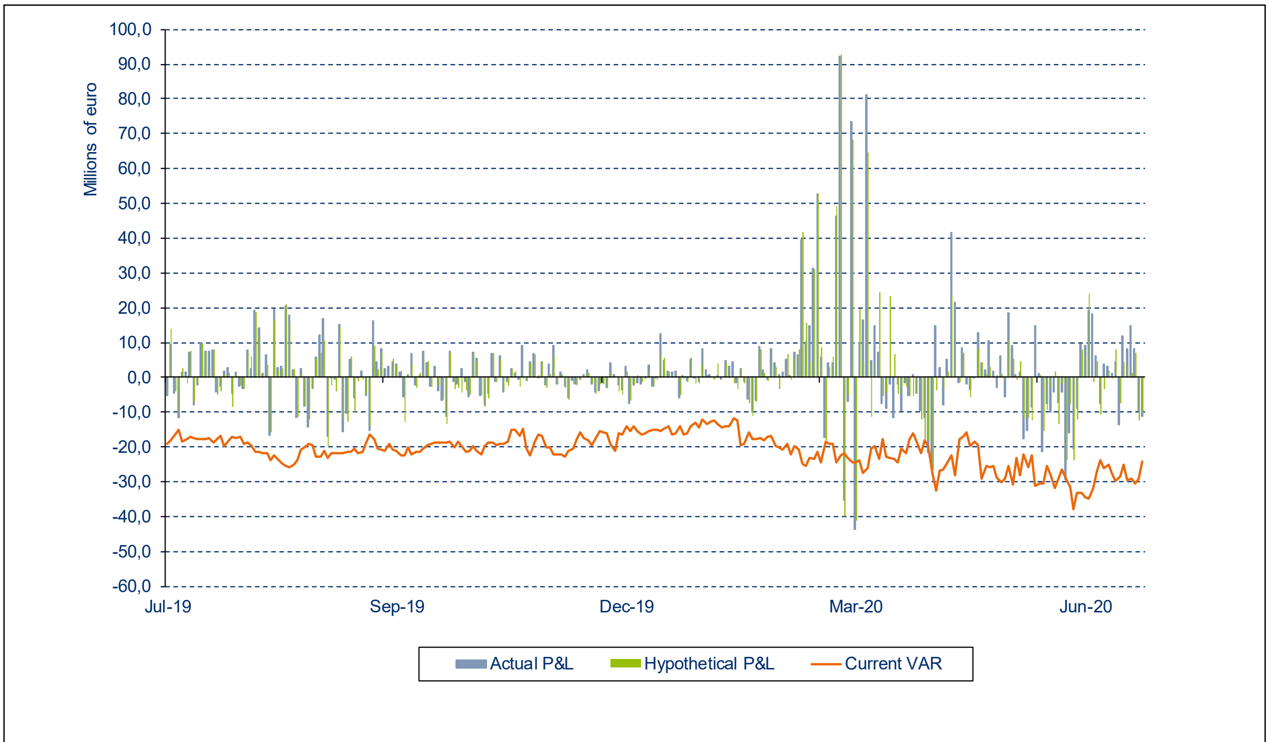
Backtesting in Intesa Sanpaolo

Four backtesting exceptions have been recorded during the last year. As for the exceptions in the third quarter of 2019, the most recent exceptions, 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 three effective P&L backtesting exceptions have been recorded (two hypothetical P&L exceptions). In addition to interest rate volatility, the largest losses are to be attributed to the credit spread variability of financial sector.



BANKING BOOK

Market risk originated by the banking book arises primarily from the exposure to assets, liabilities and off-balance sheet transactions sensitive to interest rates (interest rate risk) assumed by the Parent Company and the other main Group companies involved in credit activity (retail and corporate banking). The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.

The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

Interest rate risk is managed by setting limits and an early warning level for the exposure, approved within the Risk Appetite Framework (RAF). In particular, the early warning level allows exposure to the risk of bends in the curve. The Financial and Market Risks Head Office Department performs monthly checks that the limits and early warning level approved in the Risk Appetite Framework (RAF) are observed at the consolidated and individual level.
In addition, the Group has adopted a specific internal policy document regarding interest rate risk (the IRRBB Guidelines) subject to approval by the BoD, which governs the Group's entire interest rate risk management framework and in particular the aspects of governance, methods of use and formulation of scenarios.
The following metrics are used to measure the interest rate risk generated by the banking book:

1. with regard to economic value:
   - fair value shift sensitivity (ΔEVE);
   - fair value basis risk (BR);
   - value at risk (VaR).
2. with regard to net interest income:
   - net interest income sensitivity (ΔNII);
   - net interest income basis risk.

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks. It reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet). The cash flows used to determine the present value are developed at the contractual rate, FTP (internal fund transfer price) or risk-free rate (Euribor/Libor) and discounted according to risk-free discount curves. When calculating the present value of loans, the expected loss component is considered; it represents the amount of cash flow that the bank does not expect to recover on a given exposure and that thus reduces the value of the loan. The present value of the loan adjusted for credit risk is calculated for this purpose by deducting the corresponding level of expected loss from expected cash flows according to the "cash flow adjustment" ("CFA") method.
To control the exposure and monitor the limits, the calculation involves determining the algebraic sum of the equivalent in euro of the shift sensitivities of the positions in the various currencies by applying a parallel shock of +100 bps to the interest rate curves in the various currencies. The calculation for non-parallel shocks for the purposes of controlling the exposure and monitoring the early warning level is performed similarly. The sensitivity of the relevant currencies is then corrected, according to a "currency aggregation" management technique, to take account of the imperfect correlation with the rates of the main currency (the euro).

The fair value basis risk (BR) is a risk measure designed to capture the effect on the floating-rate banking book caused by the imperfect correlation of changes in market indices. The method of estimating fair value basis risk is based on applying shocks, diversified by the curve of reference of the main risk factors. The specific shock level is calculated as a change in the base of each reference rate compared to a designated pivot rate in the same currency.

Value at Risk (VaR) measures the maximum loss that could occur within a given time horizon (holding period) and with a given confidence level. VaR is determined by adopting a 99% confidence level and a holding period of ten days. VaR is estimated using a method based on the historical simulation of the risk factors, represented by the risk-free market interest rate curves, in which the bank's exposure is revalued (full evaluation) on the basis of the curves observed over the last 250 days prior to the evaluation date.

The sensitivity of net interest income quantifies the impact on interest income of shock to the interest rate curve. For managerial monitoring of the limits, the sensitivity of net income is measured over a short-term horizon (12 months), excluding potential effects due to new transactions and future changes in the mix of assets and liabilities, by applying parallel, instantaneous interest rate shocks. The method implicitly assumes that the principal amounts of transactions upon reaching maturity or repricing are reinvested or refinanced through transactions with the same financial characteristics as those that have reached maturity (constant balance sheet assumption), within 12 months of the date of the analysis (date of the end-of-month situation). In addition, for the purposes of prospective simulation of interest income, dynamic analyses are performed, involving a change in the composition and volumes of assets and liabilities, by also applying non-parallel, non-instantaneous shocks, over medium-term time horizons (up to 3 years).

In calculating the above risk measures, Intesa Sanpaolo adopts behavioural models for representing capital items based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding). The method developed estimates prepayment coefficients diversified according to the type of customer, financial characteristics of the transaction, such as the loan rate type (fixed or floating), the original term of the loan and the seasoning, understood as the age of the loan on the date of the prepayment event. The analysis refers to partial repayments, full repayments and refinancing. The prepayment model also examines the reasons that lead customers to make prepayments. With regard to this aspect, the phenomenon may be divided into a structural component ("Core Prepayment") and a scenario component ("Coupon Incentive"), primarily linked to market variations. Prepayment phenomena are monitored monthly and the prepayment coefficients to be applied to the model are re-estimated at least annually, in accordance with the specific model change document;
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the value and net interest income both in absolute terms and in terms of variability over time.

In addition, within the framework of the dynamic simulation of net interest income, an additional behavioural model is adopted to simulate the effects of potential renegotiations of the contractual conditions of medium-/long-term assets. In terms of risks, renegotiations modify the duration of the portfolio of medium-/long-term loans and entail a decline in net interest income due to the revision of the contractual rates/spreads to include conditions more advantageous to customers. Specific models have been estimated to ensure a proper representation of the renegotiations phenomenon in terms of the percentages of mortgage loans renegotiated and their financial characteristics.

Interest rate risk hedging is undertaken with the aim of protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS), forward sales of debt securities and options on interest rates concluded with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods.
A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. In addition, in order to preserve the economic value of a portion of the HTCS portfolio, by protecting the price of the securities against adverse market movements, the Group negotiates forward sales of the debt securities held in portfolio on a fair value hedging basis. Finally, on the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.
Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department of the Parent Company is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with the IAS/IFRS.

The table below shows the changes in the main interest rate risk measures during the first half of 2020.

(millions of euro)

	1st half 2020			30.06.2020	31.12.2019
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-554	-1,400	297	-1,400	394
Shift Sensitivity of Net Interest Income -50bp	-925	-999	-847	-847	-1,037
Shift Sensitivity of Net Interest Income +50bp	930	847	1,122	1,122	939
Shift Sensitivity of Net Interest Income +100bp	1,802	1,664	2,182	2,182	1,837
Value at Risk - Interest Rate	579	271	814	814	227

With regard to the fair value shift sensitivity, the change in the exposure compared to 31 December 2019 was due to banking book management measures to mitigate the potential negative impacts of COVID-19.

Price risk related to the FVOCI minority equity portfolio: impact on Shareholders' Equity
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 quoted assets recorded in the HTCS category.

		1st quarter 2020 impact on shareholders' equity at 31.03.2020	2nd quarter 2020 impact on shareholders' equity at 30.06.2020	Impact on shareholders' equity at 31.12.2019
Price shock	10%	49	141	50
Price shock	-10%	-49	-141	-50

During 2020, no hedging activities have been performed to cover the price risk of the banking book.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the most recent applicable regulatory provisions.
These Guidelines illustrate the tasks of the various company functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.
In particular, a detailed definition is prepared of the tasks assigned to the Corporate Bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.
In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Group Treasury and Finance Head Office Department, responsible for liquidity management, and the Financial and Market Risks Head Office Department, directly responsible for measuring liquidity risk on a consolidated basis.
The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.
The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.
The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of specific short-term indicators, both of a regulatory nature with a holding a period of one month (Liquidity Coverage Ratio - LCR) and internally defined (Survival Period indicators) with a holding period of up to 12 months.
The LCR, the minimum regulatory threshold for which is 100% after 1 January 2018, is aimed at strengthening the short-term liquidity risk profile, ensuring the holding of sufficient unencumbered high-quality liquid assets (HQLA) that can be easily and immediately converted into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in an acute liquidity stress scenario, as defined by Delegated Regulation (EU) 2015/61.
The Survival Period is an internal indicator designed to measure the first day on which the net liquidity position (calculated as the difference between available liquidity reserves and net outflows) becomes negative, i.e. when additional liquidity is no longer available to cover simulated net outflows up to 12 months. To this end, two different scenario hypotheses are considered, baseline and stressed, designed to measure, respectively: (i) the Group's independence from interbank funding on the financial markets and (ii) the survival period in the event of further tensions of a market and idiosyncratic nature, of medium-high severity, managed without envisaging restrictions on credit activity involving customers. For the Survival Period indicator, in stress conditions it is established that a minimum survival period must be maintained with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.
The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the internal policy on structural liquidity also includes early warning indicators for maturities of more than 1 year, with particular attention to long-

term gaps (> 5 years). The entry into force of the net stable funding ratio (100%) is, instead, planned for June 2021, following publication in the Official Journal in May 2019 of the package of banking reforms containing the new EU Directive 2019/878 (CRD V) and the new Regulation 219/876 (CRR2).
The Group Liquidity Risk Management Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. Within this framework, the Group Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.
The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy in the first six months of 2020: both regulatory indicators, LCR and NSFR, were well above 100%. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, amounted to an average[18] of 150%. As at 30 June 2020, the value of unencumbered HQLA reserves was 119 billion euro, more than 28% comprised of cash and deposits held with Central Banks. Including the other marketable reserves and/or eligible Central Bank reserves, the Group's unencumbered liquidity reserves amounted to 127 billion euro.
In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the Survival Period indicator (baseline scenario), identifies a financial independence in situations of freeze of the money market for more than 12 months. The additional stress tests, measured by the Survival Period indicator in a combined scenario of severe market and specific crises (with significant loss in customer deposits), also yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the Corporate Bodies and internal committees in order to ensure full awareness and manageability of the various risk factors.

[18] The figure presented refers to the simple average of the last 12 monthly observations, per the EBA guidelines, "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013", June 2017.

INFORMATION ON FINANCIAL PRODUCTS

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

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

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

Fair value of financial instruments

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the Insurance Companies.
The "Rules for the Measurement of Equity Investments", drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.
The methodologies for the fair value measurement of financial instruments, as well as any adjustments attributable to uncertainties in valuation, are governed by the Fair Value Policy of the Intesa Sanpaolo Group and are described in detail in the 2019 Annual Report, to which reference is made for more information.

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

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.
The attachment "Fair Value Hierarchy" of the Fair Value Policy defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
The following are considered as level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
– the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
– valuations performed using – even partially – inputs not identified from parameters observed on the market, for which

estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

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

The following are measured using this method:
- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;
- private equity funds and real estate funds valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

Independent price verification (IPV)

Independent Price Verification (IPV) is “a process by which market prices or marking to model inputs are regularly verified for accuracy and independence” (Article 4(1.70) EU Regulation 575/2013), carried out “in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book” (Article 105(8) EU Regulation 575/2013).
The Intesa Sanpaolo Group has structured an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013, incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.
The Intesa Sanpaolo Group governs and formalises its independent price verification process through the Group Independent Price Verification Policy, which is described in detail in the 2019 Annual Report and to which reference is made for further information.

Prudent value of financial instruments

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS. The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%.
Regulation (EU) 2016/101 specifies an aggregation approach for calculating total Additional Valuation Adjustments (AVAs) at the category level based on the individual AVAs, which takes account of the overlap between the individual AVAs that occurs in the aggregation of these AVA categories. Commission Delegated Regulation (EU) 866/2020, published in the Official Journal on 25 June 2020, established that entities must apply a 66% aggregation factor from 30 June 2020 to 31 December 2020 in order to better manage the extreme volatility of market prices and the systemic shock tied to the COVID-19 pandemic.

The Intesa Sanpaolo Group governs and formalises the measurement of the prudent value of financial instruments through the Group Prudent Value Policy, which is described in detail in the 2019 Annual Report and to which reference is made for further information.

Fair value hierarchy

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

(millions of euro)

Assets / liabilities at fair value	30.06.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	24,281	33,392	3,165	17,934	28,658	2,822
a) Financial assets held for trading	23,250	32,545	477	17,161	27,622	369
of which: Equities	*556*	*-*	*1*	*713*	*-*	*1*
of which: quotas of UCI	*444*	*2*	*21*	*661*	*2*	*24*
b) Financial assets designated at fair value	-	51	-	-	195	-
c) Other financial assets mandatorily measured at fair value	1,031	796	2,688	773	841	2,453
of which: Equities	*1*	*116*	*181*	*2*	*95*	*179*
of which: quotas of UCI	*1,030*	*129*	*1,463*	*771*	*127*	*1,410*
2. Financial assets measured at fair value through other comprehensive income	64,456	8,867	455	63,815	8,173	422
of which: Equities	*1,446*	*1,760*	*391*	*611*	*2,048*	*400*
3. Hedging derivatives	-	4,195	15	8	3,008	13
4. Property and equipment	-	-	5,685	-	-	5,748
5. Intangible assets	-	-	-	-	-	-
Total	**88,737**	**46,454**	**9,320**	**81,757**	**39,839**	**9,005**
1. Financial liabilities held for trading	13,110	41,911	111	18,422	26,704	100
2. Financial liabilities designated at fair value	38	2,022	-	-	4	-
3. Hedging derivatives	17	12,605	3	-	9,284	4
Total	**13,165**	**56,538**	**114**	**18,422**	**35,992**	**104**

Excluding insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 6.5%.
As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.
Over 61% of financial assets measured at fair value (excluding the insurance segment) are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities measured at level 3 as detailed below, please note that the following transfers were made during the first half of 2020:
- from level 1 to level 2:
  - financial assets held for trading for 460 million euro (book value as at 30 June 2020);
  - other financial assets mandatorily measured at fair value for 4 million euro (book value as at 30 June 2020);
  - financial assets measured at fair value through other comprehensive income for 485 million euro (book value as at 30 June 2020);
  - financial liabilities held for trading for 9,504 million euro (book value as at 30 June 2020), including Certificates, whose market dynamics are described in the paragraph “The first half of 2020”;
- from level 2 to level 1:
  - financial assets held for trading for 81 million euro (book value as at 30 June 2020);
  - financial assets measured at fair value through other comprehensive income for 13 million euro (book value as at 30 June 2020);
  - financial liabilities held for trading for 165 million euro (book value as at 30 June 2020).

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

observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

Assets and liabilities measured at fair value on a recurring basis: fair value by level
Insurance companies

(millions of euro)

Assets / liabilities at fair value	30.06.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	347	14	44	284	22	46
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*116*	-	*44*	*119*	-	*46*
2. Financial assets designated at fair value through profit or loss	81,171	161	279	83,816	141	308
of which: Equities	*2,310*	-	-	*2,315*	-	-
of which: quotas of UCI	*73,691*	*117*	-	*76,521*	*99*	-
3. Financial assets available for sale	78,288	2,766	2,029	79,315	2,162	1,902
of which: Equities	*1,583*	-	*24*	*1,480*	-	-
of which: quotas of UCI	*9,468*	-	*1,994*	*9,917*	-	*1,902*
4. Hedging derivatives	-	243	-	-	206	-
5. Property and equipment	-	-	3	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**159,806**	**3,184**	**2,355**	**163,415**	**2,531**	**2,256**
1. Financial liabilities held for trading	7	52	-	-	45	-
2. Financial liabilities designated at fair value through profit or loss	-	72,800	-	-	75,886	-
3. Hedging derivatives	-	1	-	-	4	-
Total	**7**	**72,853**	**-**	**-**	**75,935**	**-**

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

In addition to the transfers relating to financial assets and liabilities in the insurance segment measured at level 3 as detailed below, please note that the following transfers were made during the first half of 2019:
- from level 1 to level 2:
  - financial assets measured at fair value through profit and loss for 3 million euro (book value as at 30 June 2020);
  - financial assets available for sale for 798 million euro (book value as at 30 June 2020);
- from level 2 to level 1:
  - financial assets measured at fair value through profit and loss for 7 million euro (book value as at 30 June 2020);
  - financial assets available for sale for 63 million euro (book value as at 30 June 2020);

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

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

(millions of euro)

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily measured at fair value*				
1. Initial amount	**2,822**	**369**	**-**	**2,453**	**422**	**13**	**5,748**	**-**
2. Increases	**787**	**280**	**-**	**507**	**140**	**2**	**6**	**-**
2.1 Purchases	313	128	-	185	7	-	2	-
2.2 Gains recognised in:	101	57	-	44	10	2	-	-
2.2.1 Income statement	101	57	-	44	-	2	-	-
- of which capital gains	*90*	*54*	*-*	*36*	*-*	*2*	*-*	*-*
2.2.2 Shareholders' equity	-	X	X	X	10	-	-	-
2.3 Transfers from other levels	214	89	-	125	34	-	-	-
2.4 Other increases	159	6	-	153	89	-	4	-
3. Decreases	**-444**	**-172**	**-**	**-272**	**-107**	**-**	**-69**	**-**
3.1 Sales	-134	-106	-	-28	-7	-	-2	-
3.2 Reimbursements	-45	-1	-	-44	-6	-	-	-
3.3 Losses recognized in:	-106	-47	-	-59	-6	-	-4	-
3.3.1 Income statement	-106	-47	-	-59	-1	-	-3	-
- of which capital losses	*-103*	*-46*	*-*	*-57*	*-*	*-*	*-*	*-*
3.3.2 Shareholders' equity	-	X	X	X	-5	-	-1	-
3.4 Transfers to other levels	-89	-15	-	-74	-15	-	-	-
3.5 Other decreases	-70	-3	-	-67	-73	-	-63	-
4. Final amount	**3,165**	**477**	**-**	**2,688**	**455**	**15**	**5,685**	**-**

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

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**46**	**308**	**1,902**	**-**	**-**	**-**
2. Increases	**-**	**1**	**427**	**-**	**3**	**-**
2.1 Purchases	-	-	304	-	-	-
2.2 Gains recognized in:	-	-	17	-	-	-
2.2.1 Income statement	-	-	3	-	-	-
- of which capital gains	*-*	*-*	*-*	*-*	*-*	*-*
2.2.2 Shareholders' equity	X	X	14	-	-	-
2.3 Transfers from other levels	-	1	35	-	-	-
2.4 Other increases	-	-	71	-	3	-
3. Decreases	**-2**	**-30**	**-300**	**-**	**-**	**-**
3.1 Sales	-	-1	-149	-	-	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses recognized in:	-2	-	-82	-	-	-
3.3.1 Income statement	-2	-	-2	-	-	-
- of which capital losses	*-2*	*-*	*-2*	*-*	*-*	*-*
3.3.2 Shareholders' equity	X	X	-80	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-29	-69	-	-	-
4. Final amount	**44**	**279**	**2,029**	**-**	**3**	**-**

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

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**100**	**-**	**4**
2. Increases	**37**	**-**	**-**
2.1 Issues	**-**	**-**	**-**
2.2 Losses recognised in:	29	-	-
2.2.1 Income statement	29	-	-
- of which capital losses	*29*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	8	-	-
2.4 Other increases	-	-	-
3. Decreases	**-26**	**-**	**-1**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-11	-	-1
3.3.1 Income statement	-11	-	-1
- of which capital gains	*-9*	-	*-1*
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-5	-	-
3.5 Other decreases	-10	-	-
4. Final amount	**111**	**-**	**3**

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

No financial liabilities are recorded at level 3 for Insurance companies.

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

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2020		31.12.2019	
	Book value	Fair value	Book value	Fair value
1. Financial assets measured at amortised cost	497,653	508,366	467,815	477,020
2. Investment property	-	-	-	-
3. Non-current assets held for sale and discontinued operations	2,593	2,593	494	494
Total	**500,246**	**510,959**	**468,309**	**477,514**
1. Financial liabilities measured at amortised cost	536,565	536,464	519,382	521,242
2. Liabilities associated with non-current assets	2,381	2,381	41	41
Total	**538,946**	**538,845**	**519,423**	**521,283**

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

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2020		31.12.2019	
	Book value	Fair value	Book value	Fair value
1. Investments held to maturity	-	-	-	-
2. Due from banks	705	705	581	580
3. Loans to customers	30	31	31	32
4. Investment property	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-
Total	**735**	**736**	**612**	**612**
1. Due to banks	618	618	2	2
2. Due to customers	394	393	77	76
3. Securities issued	767	767	747	747
4. Liabilities associated with non-current assets	-	-	-	-
Total	**1,779**	**1,778**	**826**	**825**

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

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-348	1 bp
FVTPL and FVTOCI securities and loans	JD parameters	389	1%
FVTPL and FVTOCI securities and loans	Correlation	-28	1%
FVTPL and FVTOCI securities	Recovery rate	-214	-1%
OTC Derivatives - Interest Rates	Correlation for spread options between swap rates	-70	10%
OTC Derivatives - Equity	Correlation between underlying equity baskets	-75	10%
OTC Derivatives - Equity	Historical volatility	-1,902	10%
OTC Derivatives - Equity CPPI	Historical correlation	-168	10%

Information on “Day one profit/loss”

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

(millions of euro)

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

Finally, in the context of the transaction that involved the transfer to Nexi of the business line consisting of the acquiring activities, on 30 June 2020 Intesa Sanpaolo purchased 9.9% of Nexi SpA from Mercury UK HoldCo Limited, the company's reference shareholder, for a pre-determined price of 10.5 euro per share, corresponding to a cash outlay of 653 million euro; since the Nexi SpA shares are listed on Borsa Italiana, and thus have a fair value level of 1, the difference of 315 million euro between the amount paid and the corresponding value on the basis of market capitalisation at the effective date of the purchase was accounted for as profit in the income statement.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, which amounted to 3,794 million euro as at 31 December 2019, came to 2,985 million euro as at 30 June 2020, showing a net decrease of 809 million euro. The exposure includes investments in ABSs (asset-backed securities) of 1,565 million euro, in CLOs (collateralised loan obligations) of 1,345 million euro and, for a residual amount, in CDOs (collateralised debt obligations) of 75 million euro, for which there were essentially no additional transactions during the period.

(millions of euro)

Accounting categories	30.06.2020				31.12.2019	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	395	561	-	956	1,514	-558	-36.9
Financial assets mandatorily measured at fair value	-	4	-	4	20	-16	-80.0
Financial assets measured at fair value through other comprehensive income	563	660	-	1,223	1,485	-262	-17.6
Financial assets mesured at amortised cost	387	340	75	802	775	27	3.5
Total	**1,345**	**1,565**	**75**	**2,985**	**3,794**	**-809**	**-21.3**

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, also 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 2,183 million euro in June 2020, a net decrease of 836 million euro, attributable to investments, which were significantly 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 primarily in the financial assets held for trading portfolio. The investments made by Banca IMI in the portfolio of assets held for trading and, to a lesser extent, in the portfolio of assets measured at fair value through other comprehensive income refer to CLOs with mainly AAA ratings and, to a lesser extent, ABSs with underlying residential mortgages.
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 802 million euro in June 2020.
From profit or loss perspective, a loss of -26 million euro was posted for 2020, compared to +24 million euro for the first six months of 2019.
This loss from trading activities – caption 80 of the income statement – of -29 million euro (compared to a profit of +8 million euro in the first half of 2019) was due to exposures in ABSs amounting to -14 million euro and to exposures in CLOs amounting to -15 million euro, and is to be attributed to net profits on disposals of +5 million euro, offset by net unrealised losses of -34 million euro, attributable to the downturn in the markets during the period as a result of the COVID-19 health emergency.
The loss from financial assets mandatorily measured at fair value was -1 million euro, compared to a profit of +14 million euro in the first half of 2019.
The exposures to ABSs and CLOs of debt securities classified as assets measured at fair value through other comprehensive income, essentially attributable to the subsidiary Banca IMI, recorded a decrease in fair value of -19 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 -17 million euro in June 2020); there was also an impact of +4 million euro from sales during the period (+1 million euro in the first six months of 2019).
Adjustments recognised on the debt securities classified as assets measured at amortised cost amounted to less than 1 million euro in the first half of 2020, compared to adjustments of +1 million euro in the first half 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 at the end of the first half of 2020.

(millions of euro)

Income statement results broken down by accounting category	30.06.2020				30.06.2019	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	-15	-14	-	-29	8	-37	
Financial assets mandatorily measured at fair value	-	-1	-	-1	14	-15	
Financial assets measured at fair value through other comprehensive income	-	4	-	4	1	3	
Financial assets mesured at amortised cost	-	-	-	-	1	-1	
Total	**-15**	**-11**	**-**	**-26**	**24**	**-50**	

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 half 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 then issued for an amount of 1.8 billion euro. The securities are floating rate with a maturity of 13 years for the 38th series and 14 years for the 39th and 40th series, respectively. Subsequently, the securities for the 41st and 42nd series were issued in April, each amounting to 2.4 billion euro, floating rate, with a maturity of 15 years. Finally, two additional series, the 43rd and 44th, were then issued in June, each amounting to 1.35 billion euro, floating rate, with maturities of 8 and 16 years, respectively. All securities in the series issued are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS, were fully subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was partially redeemed (for an amount of 550 million euro) in January, 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. The security, with an Aa3 rating from Moody's, is a floating rate, 11-year security listed on the Luxembourg Stock Exchange, was fully subscribed by the Parent Company and is eligible for the Eurosystem.
A new securitisation on a portfolio of consumer credit loans was completed in June by the special purpose vehicle company Clara Sec., which issued two classes of notes for a total of 7.2 billion euro, subscribed by Intesa Sanpaolo. Only the senior class, amounting to 6.35 billion euro, with an A (High) rating from DBRS and A1 from Moody's, is eligible with the Eurosystem.

INFORMATION ON LEVERAGED TRANSACTIONS

In 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, financial institutions and 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 and object financing) and certain other types of credit, such as trade finance operations, are also excluded.

As at 30 June 2020, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 21 billion euro, relating to approximately 1,800 credit lines (as at 31 December 2019 the amount was 20.8 billion euro, 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 30 June 2020 amounted to 34 million euro in the trading book and 194 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 consist of funds that adopt medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.
During the first half of 2020, disposals of positions were made for 80 million euro in the trading books, which occurred in the first three months of the year as an action to reduce 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 stable, with no major investments or disposals made during the half-year.
In terms of profit or loss effect, the profits (losses) on trading – caption 80 of the income statement (trading book) – showed a loss of 22 million euro for the first six months of 2020 compared to a profit of 2 million euro in the first six months of 2019. The result for the period included valuation losses of 6 million euro and losses on disposals of 16 million euro, the latter relating to the de-risking strategy, which resulted in a reduction of the trading book.
The net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement (banking book) – recorded an overall loss of approximately 0.5 million euro during the period (compared to a profit of 3 million euro in the first six months of 2019), attributable to valuation components, nonetheless marking a recovery from the valuations recorded for the first three months of the year.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

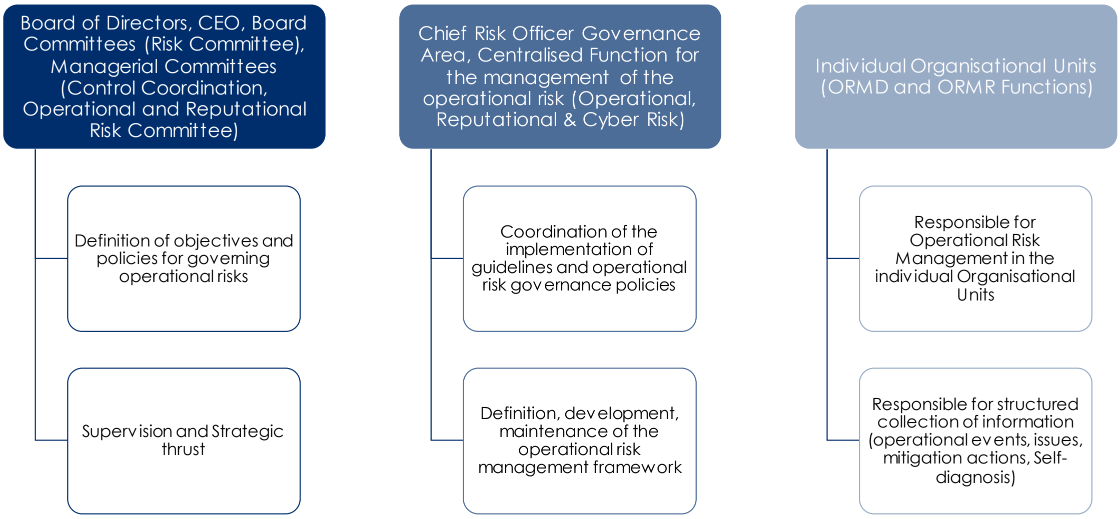
Considering relations with customers only, as at 30 June 2020, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 8,763 million euro (7,694 million euro as at 31 December 2019). The notional value of these derivatives totalled 64,309 million euro (62,528 million euro as at 31 December 2019). In particular, the notional value of plain vanilla contracts was 58,933 million euro (58,403 million euro as at 31 December 2019), while that of structured contracts was 5,376 million euro (4,125 million euro as at 31 December 2019).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures at the end of the first half of the year came to 5,817 million euro (5,269 million euro as at 31 December 2019), of which 519 million euro (476 million euro as at 31 December 2019) referred to structured contracts.
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,907 million euro as at 30 June 2020 (1,410 million euro as at 31 December 2019). The notional value of these derivatives totalled 20,486 million euro (20,334 million euro as at 31 December 2019). In particular, the notional value of plain vanilla contracts was 18,204 million euro (17,392 million euro as at 31 December 2019), while that of structured contracts was 2,282 million euro (2,942 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 30 June 2020, this led to a negative effect of 76 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. Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

OPERATIONAL RISK

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events. As far as the financial losses component is concerned, the Operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third party and model risk. Strategic and reputational risk are not included.
The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.
In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk governance framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

Governance Model

The monitoring of the operational risks (including IT and cyber risks) involves Bodies, Committees and units that interact with different responsibilities and roles in order to create an effective governance system that is closely integrated into the decision-making processes and the management of company operations.



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

- Identification: the detection and description of potential operational risk areas (e.g. operational events, presence of issues, applicability of risk factors, significant risk scenarios);
- Assessment and measurement: determination of operational risk exposure;
- Monitoring and control: continuous management of changes in the operational risk exposure, also to prevent the occurrence of harmful events and to promote active risk management;
- Mitigation: operational risk containment through appropriate mitigation actions and suitable risk transfer strategies, based on a risk-driven approach;
- Reporting: preparation of information flows related to operational risk management, designed to ensure adequate knowledge of the exposure to this risk.

IT and cyber risk

The Intesa Sanpaolo Group considers its information system a tool of primary importance to the achievement of its strategic, business and social responsibility objectives, including in the light of the critical nature of the company processes that depend on it, and undertakes to create a resilient environment and to invest in assets and infrastructure designed to minimise the potential impact of ICT events and to protect its business, image, customers and employees.
The Group has therefore adopted a system of principles and rules intended to identify and measure the ICT risk to which company assets are exposed, assess the existing safeguards and identify adequate methods of managing such risks, planning appropriate mitigation measures to reduce their levels to within the pre-established limits, where necessary.

Internal model for the measurement of operational risk

The Intesa Sanpaolo Group's internal model for calculating capital absorption (the "Advanced Measurement Approach" or "AMA") is designed to combine all the main sources of quantitative information (internal and external operational losses and estimates deriving from the Scenario Analysis) and qualitative information (Business Environment Evaluation - VCO).
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied to both operational losses and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90% (equivalent to facing the worst 1,000 year annual loss). The methodology

also applies a corrective factor, which derives from the qualitative analyses of the risk level of the operational environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.
The internal model's insurance mitigation component was approved by the Competent Authority in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

Operational risk capital requirement

For regulatory purposes, the Group adopts the Advanced Measurement Approach, in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.
The AMA approach is adopted by Intesa Sanpaolo S.p.A. and the main banks and companies in the Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.
The capital absorption resulting from this approach amounts to 1,781 million euro as at 30 June 2020, up modestly from 1,697 million euro as at 31 December 2019.

Legal risks

As at 30 June 2020, there were a total of about 26,000 disputes pending, other than tax disputes, (excluding those involving Risanamento S.p.A. and Autostrade Lombarde S.p.A., which are not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 5,622 million euro[19]. This amount includes all outstanding disputes, regardless of the estimated risk of a disbursement of financial resources resulting from a potential negative outcome and therefore also includes disputes with a remote risk.
The risks associated with the above disputes have been thoroughly analysed by the Parent Company and Group companies involved. Specific and appropriate provisions have been made to the Allowances for Risks and Charges in the event of disputes for which there is an estimated probability of a disbursement of more than 50% and where the amount of the disbursement may be reliably estimated (disputes with likely risk).These disputes amount to around 11,600 with a remedy sought of 1,815 million euro and provisions of 589 million euro. The part relating to the Parent Company Intesa Sanpaolo is around 5,100 disputes with a remedy sought of 1,451 million euro and provisions of 441 million euro, the part relating to other Italian subsidiaries is around 500 disputes with a remedy sought of 254 million euro and provisions of 93 million euro, and the part relating to the international subsidiaries is around 6,000 disputes with a remedy sought of 110 million euro and provisions of 55 million euro.

There were no new significant legal disputes during the half-year.

For the main pending disputes, the significant developments in the first half of the year are described below; see the Notes to the 2019 Annual Report for further details.

Private banker (Sanpaolo Invest) – In relation to the serious violations committed by a private banker of Sanpaolo Invest, at the end of June the subsidiary had received a total of 272 complaints with a total remedy sought of approximately 54 million euro. Of these, 61 complaints relate to misappropriations (with a remedy sought of approximately 17 million euro, for which the checks conducted determined the lesser amount of 13 million euro) and other types of damages (10 million euro). A further 211 claims for a total remedy of around 27 million euro relate to false accounting and unauthorised transactions, as well as requests for reimbursement of fees.
During the half-year, the subsidiary accepted and reimbursed more than 4 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 residual risk of disbursement resulting from the illegal acts committed by the private banker is covered by a provision of approximately 9 million euro. 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 discovery orders issued and the coverage provided by the insurance policy, which the Company promptly triggered in accordance with the policy conditions.

Selarl Bruno Raulet (*formerly Dargent Tirmant Raulet*) *Dispute* - During the first quarter of 2020, 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. Subsequently, in the second quarter, the bankruptcy trustee informed that the dispute would have been referred to the Court of Appeal of Metz; the related brief shall be filed by August.

ENPAM Lawsuit - Following the filing of the court-appointed expert's report, at the hearing of 4 June 2020 the judge presented a settlement proposal to the parties. After negotiations between the parties, the Chairman of ENPAM's Board of Directors informed JP Morgan Chase, BNP Paribas and Intesa Sanpaolo that he was willing to settle the dispute for an amount slightly lower than that proposed by the judge. This solution was accepted by the three banks; Intesa Sanpaolo's share was limited to the amount that had been provisioned the previous year precisely in view of a possible settlement.
As a consequence, the judge adjourned the case until 21 October 2020 to allow the settlement agreement to be finalised.

Disputes relating to loans in CHF against the Croatian subsidiary Privredna Banka Zagreb Dd - 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

[19] The figures for the remedy sought do not include claims of indeterminate value, i.e. those that do not contain a specific financial claim when the dispute is initiated; the value of these disputes is determined during the course of the proceedings when sufficient information emerges for the valuation.

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.
A petition for the correction of a material error contained in the judgment of the Court of Appeal of Rome was filed by the Bank in the second quarter. The hearing for discussion has been set for 17 September 2020.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
No new cases of significant amounts arose in the first half of the year. In addition, the suspension of trial time limits until 11 May was established, first by the so-called "Cura Italia" Law Decree no. 18 of 17 March 2020, and then by Law Decree no. 23 of 8 April 2020. Furthermore, Law Decree no. 34 of 19 May 2020 provides that notices of assessment, settlement, claims, penalties and recovery of tax credits, for which the time limits are set to expire between 9 March and 31 December 2020, may be issued until 31 December 2020 and validly served on the taxpayer during the period from 1 January to 31 December 2021. Finally, the time limits for conducting administrative proceedings on the petition of a party or on an ex officio basis that were pending on 23 February 2020 or commenced after that date have been suspended until 15 May 2020.
As at 30 June 2020, Intesa Sanpaolo had 668 pending litigation proceedings (612 as at 31 December 2019) for a total amount claimed (taxes, penalties and interest) of 141 million euro (146 million euro as at 31 December 2019, including the former Banco Sudameris Brasil dispute with a value of 35 million euro at the current exchange rate), considering both administrative and judicial proceedings at various instances.
In relation to these proceedings, the actual risks were quantified for Intesa Sanpaolo at 52 million euro as at 30 June 2020 (54 million euro as at 31 December 2019).
The dispute with the Provincial Department of Florence on the VAT applied in 2014 by Infogroup Informatica e Servizi Telematici S.c.p.A., a consortium company wholly represented by Intesa Sanpaolo Group companies and sold to Engineering - Ingegneria Informatica S.p.A. on 28 December 2017, was resolved during the period. In 2019, a settlement agreement had been reached for the year 2014 (approximately 2 million euro), whereas in the first half of 2020 the IRES, IRAP and VAT findings for the years 2015, 2016 and 2017 were settled by filing an amended return and paying a total of 7.7 million euro, of which 0.6 million euro contractually borne by Engineering, already set aside in the 2019 Financial Statements. The total settlement cost was 7.1 million euro, considering the positive effect of 2 million euro arising from the deduction of the VAT paid for the settlement, recovered from ISP, for the purposes of IRES and IRAP.
With regard to the disputes still pending, in June the Attorney General filed an appeal before the Court of Cassation against the judgment of the court of second instance, favourable to the Bank, in the matter of registration tax, assessed by the Italian Revenue Agency of Milan in the amount of 6.7 million euro, in addition to interest (no penalty was levied). The Agency reclassified the overall transaction whereby Manzoni s.r.l. transferred a private equity business line that it had acquired through two different contributions of business lines by the Bank and the former IMI Investimenti S.p.A. to Melville S.r.l. through a partial, non-proportional demerger as the sale of a business line, levying registration tax on the transaction at 3% of the economic value declared in the de-merger deed. The Bank retained a major law firm to represent it at trial.
Mention should also be made of the filing by the Regional Tax Commission of Piedmont of judgment no. 125/4/2020, unfavourable to the Bank, regarding the lawfulness of a payment notice of 1.7 million euro. This notice, served in 2016, follows the unfavourable judgment of the Court of Cassation no. 25463/2015 regarding solely the penalties for tax periods

1986 and 1988 on IRPEG and ILOR findings not cancelled in the various instances of the trial on the merits, which concluded a complex, lengthy trial, arising from the merger of Istituto Bancario Sanpaolo di Torino with Banca Popolare dell'Agricoltura. In addition, another set of proceedings had unfolded in parallel, regarding the amnesty pursuant to Law 413/1991, in which the Istituto had participated for the years in dispute, also disputed by the tax authorities, which had yielded a favourable outcome for the Bank in the first and second instances. Given the complexity of the matters at issue in the trial and the legal questions on the merits, it is currently being evaluated whether an appeal of the aforementioned unfavourable judgment before the Court of Cassation would be tenable. The amount of the notice was already paid in full in the course of the trial on a provisional basis; if this claim becomes definitive, there will be no impact on the income statement, since the tax authorities' claim is fully covered by the allowance for tax litigation.
With regard to the merged company Banca Nuova (formerly a member of the Banca Popolare di Vicenza Group), on 20 December 2019 the Italian Revenue Agency served Intesa Sanpaolo, as the surviving company, with a tax audit report regarding tax period 2015 containing findings for a total of 1.6 million euro of taxable profit and IRES and IRAP taxes for a total of 0.46 million euro, in addition to penalties and interest. The alleged violations relate to: i) unlawful deduction of contingent losses on receivables due for invoices to be issued; ii) unlawful deduction due to decreases in the allowance for credit losses arising from the write-off of loans; and iii) unlawful off-balance sheet deduction of the "super-depreciation". As the party responsible for making decisions regarding the findings formulated in the tax audit report by the Italian Revenue Agency, ISP conducted all document research and follow-up activities, on the basis of which it prepared defence briefs that are in the process of being filed. The dispute will be reported to Banca Popolare di Vicenza in compulsory administrative liquidation - and to the Ministry of the Economy and Finance for their consideration and in view of the guarantees provided under Art. 2, paragraph c), of Ministerial Decree 187 of 25 June 2017, in accordance with Art. 4, paragraph 1, letter c), of Decree-Law 99 of 25 June 2017 - which has the obligation to indemnify ISP against any liability, pursuant to Article 11 of the contract entered into on 26 June 2017, for the acquisition of certain assets, liabilities and legal relationships.
With regard to the Intesa Sanpaolo branches located outside Italy, see the disclosures provided in the 2019 financial statements on ongoing audits. In addition, a general audit by the German tax authority will be launched at the Frankfurt branch in August with regard to the following areas relating to the tax periods from 2016 to 2018: i) income taxes; ii) VAT; iii) withholding taxes; iv) tax losses carried forward; v) transfer pricing; and vi) German trade tax.
At the Group's other Italian companies, tax disputes totalled 53 million euro as at 30 June 2020, unchanged compared to 31 December 2019, covered by specific provisions of 1 million euro (1 million euro in the 2019 financial statements).
Of these 53 million euro: i) 9.3 million euro refers to claims involving Fideuram concerning the failure to withhold 27% of the interest accrued in 2009, 2010 and 2011 on foreign bank accounts held at Fideuram Bank (Luxembourg) by two "historic" Luxembourg mutual funds (Fonditalia and Interfund SICAV), for which in the years assessed Fideuram was only the placement bank and correspondent bank. The risk has been deemed not probable; ii) 42.2 million euro is attributable to the IRES and IRAP disputes involving Intesa Sanpaolo Private Banking, relating to the deduction (in 2011 and the following years) of the amortisation charge for the goodwill arising from the transfers of the private banking business lines of Intesa Sanpaolo and Cassa dei Risparmi di Forlì e della Romagna in 2009, Banca di Trento e Bolzano and Cassa di Risparmio di Firenze in 2010 and Cassa di Risparmio Pistoia e Lucchesia and Cassa di Risparmio dell'Umbria in 2013, realigned by the transferee in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008. The risk of incurring liabilities is considered to be remote.
The amount of tax disputes involving international subsidiaries is limited and almost entirely provisioned. These consisted of claims for a total value of 9 million euro (11 million euro at the end of 2019) covered by provisions of 7 million euro (7 million euro at the end of 2019).
The decrease in the claimed amount was mainly due to a dispute involving Intesa Sanpaolo Bank Albania, settled without any impact on the income statement in 2020 (total remedy sought of 0.5 million euro), and the reduction in the value of the lawsuit involving Intesa Sanpaolo Brasil S.A., regarding direct taxes for the years 2015 and 2016, due to the negative performance of the Brazilian currency (-0.6 million euro).
The dispute in which the most significant amount is at issue relates to the Egypt-based Alexbank and concerns the non-payment of stamp duty by the branches of the Egyptian bank amounting to approximately 4.8 million euro for the tax periods from 1984 to 2006. The potential liability arising from the litigation has been provisioned.
In addition, in March Exelia was subject to a VAT audit by the Romanian tax authority (ANAF) with regard to tax periods 2014 - 2019. This audit has been concluded and ANAF has determined that the services rendered by Exelia may be classified as services of a financial nature for VAT purposes and are thus exempt, resulting in the full non-deductibility of the VAT on purchases of goods and services. The revenue authority thus claimed non-payment of VAT for 369 thousand euro, in addition to penalties of 146 thousand euro, for the tax periods subject to audit, but the company could have the penalties cancelled in full.
Finally, the tax audit on IMI SEC is still underway for the years 2015 and 2016, for which the US tax authorities are contesting the composition of the company's revenues, which have a high level of income originating from outside the State of New York and subject to lower tax. In 2019 the audit was also extended to 2017. No claims have been made for the time being.

INSURANCE RISKS

Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life, Fideuram Vita and Intesa Sanpaolo RBM Salute) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 30 June 2020, the investment portfolios of Group companies, recorded at book value, amounted to 167,199 million euro. Of these, a part amounting to 85,781 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 81,418 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.
In terms of breakdown by asset class, net of derivative financial instruments, 84.2% of assets, i.e. 72,003 million euro, were bonds, whereas equity instruments represented 1.9% of the total and amounted to 1,608 million euro. The remainder (11,901 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.9%).
The carrying value of derivatives came to approximately 269 million euro, of which 242 million euro relating to effective management derivatives[20], and the remaining portion (27 million euro) is attributable to hedging derivatives.
At the end of the first six months of 2020, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 419 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10 day holding period) of approximately 14 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 4,250 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 5.1% of total investments and A bonds approximately 6.4%. Low investment grade securities (BBB) were approximately 85.9% of the total and the portion of speculative grade or unrated was minimal (approximately 2.6%).
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 80.1% of the total investments, while financial companies (mostly banks) contributed approximately 11.1% of exposure and industrial securities made up approximately 8.8%.
At the end of the first half 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 4,266 million euro, with 3,625 million euro due to government issuers and 641 million euro to corporate issuers (financial institutions and industrial companies).

OTHER RISK FACTORS

In addition to the risks described above, the Intesa Sanpaolo Group is carefully assessing the following risk factors.

Brexit

On 31 January 2020, the United Kingdom (UK) officially left the European Union (EU) on the basis of the Withdrawal Agreement reached by the UK and EU in October 2019 and ratified by both parties in early 2020.
An 11-month transition period began on 1 February 2020, during which:
- Community legislation will continue to apply in the United Kingdom;
- the EU and UK will be required to negotiate the terms of their future relations.

Although a departure with a withdrawal agreement with effect from 31 January 2020 has emerged, there continues to be uncertainty regarding the regulatory framework that will enter into effect, in particular with regard to financial services, at the end of the transition period.
In March 2020, negotiations relating future relations began; however, due in part to the COVID-19 emergency, in the first half of 2020 no particular progress was made; the deadline by which the United Kingdom and European Union were to have agreed the extension of the transition period expired on 30 June 2020, and the said transition period is thus set to expire on 31 December 2020. In July 2020, negotiations are expected to intensify, ideally culminating in an agreement by October at the latest, to allow the parties to conclude their respective ratification procedures by the end of the year.
In addition, the deadline by which, according to the Political Declaration, the United Kingdom and the European Union had pledged, albeit on a "best effort" basis, to conclude their respective assessments of the equivalence frameworks, expired on 30 June 2020.
Considering, therefore, that in the coming weeks the United Kingdom and the European Union will have to confront very complex, delicate issues and reach an agreement of unprecedented scope, the period available to negotiate an agreement on all aspects of European-British relations and equivalence decisions might not be sufficient.
The Intesa Sanpaolo Group - present in the UK through its IMI Corporate and Investment Banking, Asset Management and Private Banking Divisions - which through a dedicated interfunctional project had long been prepared, from a prudential perspective, for a withdrawal of the United Kingdom from the EU without a Withdrawal Agreement (a "hard Brexit"), is now preparing for a worst case scenario in which by 31 December 2020 the UK and EU are unable to agree the terms of their future relations, including with regard to financial services; this would be a "no-deal" scenario with the resulting "cliff-edge"

[20] 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.

effects that could only be mitigated after the fact by individual equivalence decisions by the United Kingdom and EU. In this case, the effects of a deferred hard Brexit would most likely result.

In this respect, the project is completing the implementation of a “Brexit Strategy” to ensure coverage of risks relating to Brexit and operating and business continuity through the formulation of contingency plans. In particular, it is managing the following main risks by planning and overseeing the appropriate mitigation measures:

a) *Loss of the European financial services passporting regime*
After obtaining the necessary authorisations from the European supervisor, the Group is working on preparing a new application to be submitted by 2020 to the UK supervisor for authorisation of the single branch in the UK resulting from the merger of ISP and BIMI (effective date of 20 July 2020). If the authorisation procedure with the UK supervisor were not to be concluded by the end of the transitional period, enrolment in the Temporary Permission Regime (TPR) granted by the British authorities would permit Group entities present in the UK to continue to operate in the United Kingdom for a maximum of three years, pending formal approval of their applications.
The Group has also prepared a contingency plan to ensure business continuity for operations and assets that, in the absence of passporting, could no longer be managed by branches in the UK.

b) *Limitations on the access to central counterparties (CCPs) located in UK by EU branches*
The Group has taken measures to extend its membership in European CCPs for IRDs, CDSs, ETDs, bonds and repos in order to ensure business continuity.
In addition, with regard to positions held with UK CCPs, a risk neutralisation strategy has been implemented, resulting in a significant reduction in regulatory capital.

c) *Contract discontinuity risk*
The Group is carrying out a repapering process with counterparties to OTC derivatives contracts not cleared through a CCP and entered into with counterparties based in the United Kingdom, as well as to other types of contracts (supply, outsourcing, etc.) and has established adequate safeguards for the transfer of personal data pursuant to Regulation (EU) No 2016/679 (GDPR). It has also prepared IT and organisational solutions to block operations for any contracts not renegotiated by the end of the transition period.

d) *Risk of non-compliance with UK legislation (SMR and regulatory reporting)*
The Group is in the process of achieving compliance with United Kingdom legislation. In particular, the Group's compliance efforts are focusing on the Senior Managers and Certification Regime (SM&CR), which provides for the appointment, subject to approval by the UK supervisor, of several top management personnel ("Senior Managers") with precise areas of responsibility for branches operating in the United Kingdom as third-country branches. In addition, the Group has begun the process of complying with reporting obligations applicable to third-country branches present in the United Kingdom.

e) *Risk of disruption of operations with market counterparties based in the UK*
With regard to the risk of disruption of operations with market counterparties based in the UK, the Intesa Sanpaolo Group has begun the onboarding process for EU-based counterparties / brokers (OTFs included) to which UK-based entities have decided to migrate all or part of their operations in a no-deal scenario.

In the second half of 2020, the Intesa Sanpaolo Group will finalise the implementation phase and authorisation procedure in the UK, while also monitoring the status and outcomes of the negotiations, with particular regard to the regulatory framework that could be established for financial services and that could therefore have an impact on the contingency plans defined thus far.

Interest Rate Benchmark Reform
As is common knowledge, European benchmark rates are currently undergoing extensive reform, deriving in large part from the introduction of the European regulation on benchmarks (the Benchmarks Regulation, Regulation (EU) 2016/1011), published in 2016 and in effect since January 2018. This regulation, which establishes precise rules for contributors, users and administrators of benchmarks, also requires that they be determined on the basis, insofar as possible, of actual transactions concluded on the relevant markets, in accordance with instructions from the Financial Stability Board, in view of the central role of the relevant rates to the proper functioning of the global financial system.
In the specific case of the short-term benchmark rates declared critical by the European authorities, reforms relating to the following were required:
- Euribor: revision in 2019 by the EMMI (European Money Market Institute) of the method for determining fixings (“hybrid” method), using, where available, transactions concluded on the unsecured money market of up to 12 months by provider banks, in full continuity with the measurement of the market of reference, determination and use of fixing.
- Eonia: with effect from October 2019, determination of fixings by calculating them on the basis of the new risk-free rate published by the European Central Bank (€STR rate), according to the overnight transactions concluded by major European banks and reported according to the rules imposed by Money Market Statistical Reporting (EU 2014/1333). The Eonia fixing will be published until the end of 2021 and then permanently replaced by €STR.

Beyond European borders, the British authorities have already announced that the publication of the Libor will be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the Libor.
In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities.

Intesa Sanpaolo also participated in various initiatives, including working groups at the European level organised by EMMI and the European Central Bank. In particular, in this latter venue, the Bank participates as a voting member in the *Working Group on Risk-Free Rates*, whose main activities included the designation of €STR as the new benchmark for the short-term money market and the publication of recommendations for the transition from Eonia to €STR.
Project activities continued in the first half of 2020. Following the completion of the activities relating to the new hybrid contribution to the Euribor and release of the €STR rate for full use, the focus of the project shifted to the activities that remain ongoing, and more specifically:
- Discounting switch from Eonia to €STR for transactions subject to clearing, according to the timescales dictated by European and U.S. clearing houses;
- Progressive greater use of derivatives in respect of the €STR rate for hedging needs;
- Preparation of activities at all levels to ensure the progressive transition from the Libor to the new risk-free rates, including through reinforcement of the governance of the Libor project and the benchmark users project to cover regulatory and business aspects, with support from specialist functions. Participation in the work by the international hub branches as users of foreign currency rate benchmarks was also reinforced;
- Active, constant participation in international working groups and collaboration with the Italian authorities in support of the development of the new risk-free rates market;
- Progressive analysis of the documentation being produced from time to time at the international level, including public consultations, in order to complete the final significant milestones in 2021.

As stated in the "Accounting policies" chapter of this Report, the Intesa Sanpaolo Group elected to apply Regulation 34/2020 of 15 January 2020 in advance in its 2019 Financial Statements. This regulation adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", which 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.

Shareholder base, transactions with related parties and other information

Shareholder base

According to records in the Shareholders' Register and the most recent available information, shareholders with stakes with voting rights exceeding the threshold that, if exceeded, requires disclosure to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF" and Consob resolutions 21326/2020 and 21434/2020) – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,188,947,304	6.790%
Fondazione Cariplo	767,029,267	4.381%
Fondazione Cariparo	354,111,188	2.022%
Norges Bank (*)	350,384,917	2.001%
Fondazione CR Firenze	323,653,747	1.848%
JPMorgan Chase & Co. (**)	319,106,347	1.822%
Fondazione Carisbo	243,955,012	1.393%

(*) Also on behalf of the Government of Norway.

(**) Shareholder holding an aggregate investment of 6.580% as per form 120 B of 24 June 2020. JPMorgan Chase & Co. made the original disclosure on 16 July 2018 (through form 120 B) in view of the positions held in relation to the issue of LECOIP 2.0 Certificates, having as underlying instruments ISP ordinary shares, that the ISP Group's employees received under the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments.

Transactions with related parties

1. Procedural features

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

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:

- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for Corporate Bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Information on balances with related parties

Receivable and payable balances with related parties as at 30 June 2020 within the consolidated accounts – other than those intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

	30.06.2020	
	Amount (millions of euro)	Impact (%)
Total financial assets [1]	9,451	1.2
Total other assets [2]	456	2.5
Total financial liabilities [3]	9,382	1.4
Total other liabilities [4]	1,566	1.2

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

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

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

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

	30.06.2020	
	Amount (millions of euro)	Impact (%)
Total interest income	58	1.2
Total interest expense	-26	-2.0
Total fee and commission income	10	0.2
Total fee and commission expense	-35	-3.2
Total operating costs [1]	-55	-1.2

(1) Includes caption 190 of the income statement

In relation to associates and companies subject to joint control, in the year a total of around 19 million euro of net adjustments to loans were recorded, partially offset by releases of allowances for commitments and guarantees given of around 16 million euro.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, as well as with the additional subjects included in the scope set as a form of self-regulation.
The following table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 92 million euro.

(millions of euro)

	Subsidiaries not consolidated on a line-by-line basis	Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	26	-	179	-	-	205	1,042	1,450
a) financial assets held for trading	-	-	*1*	-	-	*1*	*1,034*	*1,450*
b) financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	*26*	-	*178*	-	-	*204*	*8*	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	22	19
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-	-	1	-	-	1	208	1
Financial assets measured at amortised cost	4	52	474	8	-	538	3,466	1,037
a) due from banks	-	-	-	-	-	-	*3,146*	*35*
b) loans to customers	*4*	*52*	*474*	*8*	-	*538*	*320*	*1,002*
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Other assets	6	6	17	-	1	30	423	3
Investments in associates and companies subject to joint control	55	47	1,360	-	-	1,462	-	-
Financial liabilities measured at amortised cost	34	19	572	22	223	870	2,156	1,215
a) due to banks	*1*	-	*2*	-	-	*3*	*1,385*	*22*
b) due to customers	*33*	*19*	*570*	*22*	*223*	*867*	*771*	*1,193*
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	1	-	-	1	3,845	1,295
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-	-	-	-	-	-
Other financial liabilities	5	-	39	13	516	573	32	961
Guarantees and committments given	24	25	499	1	1	550	1,285	156
Guarantees and committments received	-	8	22	2	-	32	129	546

(*) Shareholders and their groups that hold a stake in the share capital that exceeds the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies, calculated considering only shares owned or under management, as well as entities jointly controlled by them. The amounts mostly refer to the shareholder JPMorgan Chase & Co., that holds an aggregate investment equal to 6.580% as per form 120 B dated 24 June 2020. JPMorgan Chase & Co. made the original disclosure on 16 July 2018 (through form 120 B) in view of the positions held in relation to the issue of LECOIP 2.0 Certificates, having as underlying instruments Intesa Sanpaolo ordinary shares, that the Intesa Sanpaolo Group’s employees received under the 2018-2021 LECOIP 2.0 Long-term Incentive Plan based on financial instruments.

(**) Companies that meet the conditions of at least two of these indicators: i) the counterparty holds a stake in Intesa Sanpaolo’s capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group to the counterparty.

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

3. Information on transactions with related parties

It is noted that transactions with fully consolidated intragroup related parties are not included in this document because they are netted at consolidated level.

Most significant transactions

During the period, the Intesa Sanpaolo Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and at non-market or non-standard conditions subject – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – to the obligation to publish a market disclosure document.
Please note that the most significant transactions in the period are those that exceed the threshold of 5% of Own Funds at consolidated level (approximately 2.8 billion euro) or of the other indicators defined by the Consob regulation.
The transactions exempt from said obligation include the self-securitisation aimed at expanding the portfolio of securities of Intesa Sanpaolo S.p.A. eligible for Eurosystem refinancing operations. The transaction, with a total value of around 7.2 billion euro, was carried out via the sale of performing loans arising from personal loans paid in instalments to the vehicle company Clara Sec S.r.l., over which Intesa Sanpaolo exercises significant influence, and which does not have significant interests in other related parties.

Most significant intragroup transactions

During the period, net of the transactions between Group companies consolidated on a line-by-line basis, the Intesa Sanpaolo Group did not carry out any more significant intragroup transactions – exempt, pursuant to the aforementioned internal Procedures, from the special decision-making procedure and from the obligation to publish a market disclosure document.

Other significant transactions

The transactions undertaken by the Intesa Sanpaolo Group with related parties fall within the scope of the Group's ordinary activities and are generally entered into at market conditions, based on considerations of mutual economic interest, in line with the internal procedures mentioned above.
The main less significant transactions concluded during the period by Intesa Sanpaolo Group Companies with related parties are reported below.

Relations between the Intesa Sanpaolo Group, board members and general managers, key managers, their close family members and entities they invest in refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.

With respect to transactions with Shareholders – which hold equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management – and with entities with significant shareholding or financial relationships (to which the provisions governing transactions with related parties has been extended as a form of self-regulation, subjecting them to the same assessment, approval and disclosure procedure as applied to transactions with related parties), mainly ordinary lending transactions and transactions in financial instruments were undertaken at market conditions.
In particular, we note transactions in OTC financial instruments carried out by Banca IMI S.p.A. in the course of continuing operations, with JP Morgan Securities PLC, Blackrock Fund Managers Ltd, Goldman Sachs International, Quaestio Capital SGR S.p.A., Goldman Sachs Asset Management International and JP Morgan Asset Management UK.
Lending transactions included ordinary credit facilities assigned at market conditions to funds managed by Redo Sgr, an entity under Fondazione Cariplo.
Lastly, as part of the public exchange offer on UBI Banca shares promoted by Intesa Sanpaolo S.p.A. on 17 February 2020 an advisory agreement was entered into with JP Morgan Securities PLC in the role of financial advisor.

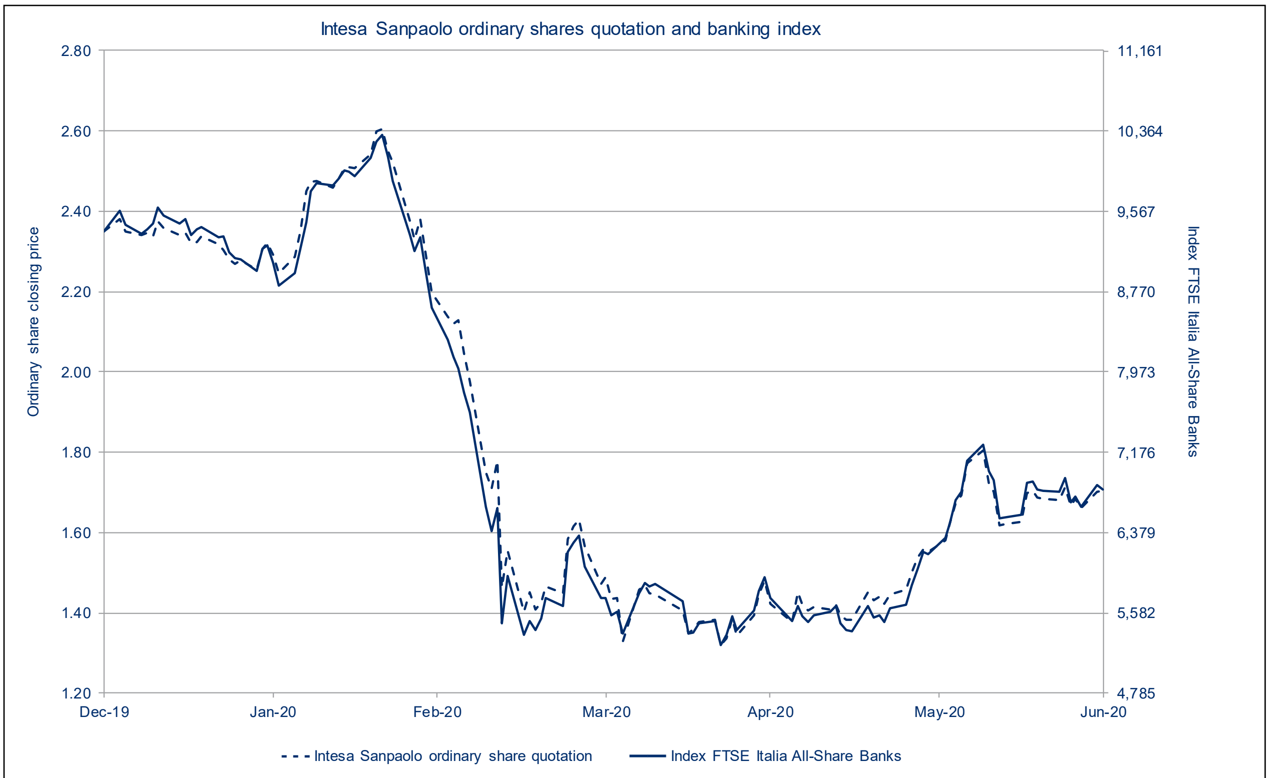
The transactions with jointly-controlled subsidiaries and associates, as well as with their subsidiaries, included the following:
- Intesa Sanpaolo S.p.A.'s participation in the capital increase of Bancomat S.p.A. for a total of 25 million euro, subscribing the relevant share for a maximum value of 7.5 million euro;
- amendment to the service contract with Intrum Italy S.p.A. to allow for in-house management by Intesa Sanpaolo S.p.A. of loans that will be repurchased;
- Intesa Sanpaolo subscribing new equity instruments issued by Euromilano S.p.A. for a total amount of 45 million euro, of which an initial tranche of 25 million euro was subscribed in June 2020;
- the early termination of the securitisation transaction with the vehicle Apulia Finance n. 4 Srl, which entails annual savings in terms of costs and more efficient management of the transactions deriving from the acquisition of the former Venetian banks;
- the request to extend by one year the unsecured commitments in place between Intesa Sanpaolo S.p.A. and Alitalia Società Aerea Italiana in A.S., needed for the regular operation of business and, specifically, the continuation of lease agreements on airplanes;
- the ordinary credit facility assigned at market conditions to Autostrade Bergamasche S.p.A.;
- ordinary transactions in OTC financial instruments carried out by Banca IMI S.p.A. with Cassa di Risparmio di Fermo;

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

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

Stock price performance

In the first half of 2020, following two months of positive performance, the sudden onset of the health emergency and the resulting rapid and severe deterioration in macroeconomic expectations led the European banking sector index to record a drop of 50% since the beginning of the year in mid-March. Subsequently, the announcement of major economic support plans by national governments and the EU, and the highly expansionary measures implemented by the ECB, helped the index to partially recover, and close the first half of 2020 with a decrease of 35%. The European banking index underperformed the Eurostoxx 50 index by 21.4% in the first half of 2020.
Within this scenario, the Italian banking index performed better than the European sector index: after posting year-to-date gains of up to 11.7% early in the half-year, the index then retraced its progress to the point of losing 46% in mid-March, following the explosion of the health emergency. At the end of the half-year, stock prices recovered partially, benefiting from the interventions of the government and the ECB to support the economy, allowing the Italian banking index to limit its drop during the half-year to 27.3% on the end of 2019. In the first half of 2020, the Italian banking index underperformed the FTSE MIB by 9.7% and outperformed the European banking index by 7.8%.
The performance of Intesa Sanpaolo ordinary shares in the first half of 2020 mirrored that of the banking sector indices, showing a substantially stagnant trend in January, an upward trend in February, up to the third week, when they reached a peak, followed by a sharply downward trend until the initial days of April, when the stock price reached its low, followed by fluctuation until the third week of May, and, lastly, a recovery which brought the share price to end the half-year down 27.5% on the end of 2019.
Intesa Sanpaolo's capitalisation dropped to 29.8 billion euro at the end of June 2020, from 41.1 billion euro at the end of 2019.



Earnings per share

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

	30.06.2020 Ordinary shares	30.06.2019 Ordinary shares
Weighted average number of shares	17,472,258,804	17,476,679,686
Income attributable to the various categories of shares (millions of euro)	2,566	2,266
Basic EPS (euro)	0.15	0.13
Diluted EPS (euro)	0.15	0.13
Basic EPS annualised (*) (euro)	0.29	0.26
Diluted EPS annualised (*) (euro)	0.29	0.26

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

Price/book value

(millions of euro)

	30.06.2020	1st half 2019	2019	2018	2017	2016
Market capitalisation	29,830	32,022	36,911	44,947	44,820	37,152
Shareholders' equity	58,582	57,275	54,996	53,646	52,558	48,344
Price / book value	**0.51**	**0.56**	**0.67**	**0.84**	**0.85**	**0.77**

The index reflects the value attributed by the market to the share capital of a listed company, and hence indirectly to the company's overall assets. The index, while measuring the confidence which financial analysts and the financial community have in the company's income prospects and capital strength, is affected significantly by the external factors that influence stock prices. Also for the Intesa Sanpaolo Group, the performance of the index – as at 30 June 2020 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

Rating

During the first half, the rating agencies revised ISP's ratings to incorporate the impacts of the pandemic. Specifically:

– on 26 April 2020, Moody's confirmed ISP's senior unsecured debt rating of "Baa1", changing the outlook from stable to "negative", due to the worsening of the operating context in Italy;
– on 29 April 2020, S&P Global Ratings confirmed ISP's rating of "BBB/A-2" with negative outlook, in line with Italy's ratings;
– on 12 May 2020, DBRS Morningstar confirmed its "BBB (high)"/"R-1 (low)" ratings ISP, while modifying the trend on both ratings from stable to "negative". The revision of the trend followed the similar action on Italy's rating of 8 May 2020.
– on 12 May 2020, Fitch Ratings downgraded ISP's rating to "BBB-/F3" with stable outlook following the same action on Italy's rating on 28 April.

The table below shows the ratings assigned to Intesa Sanpaolo by the main agencies as at 30 June 2020.

	RATING AGENCY			
	DBRS Morningstar	Fitch Ratings	Moody's	S&P Global Ratings
Short-term debt	R-1 (low)(1)	F3	P-2	A-2
Long-term senior debt	BBB (high)	BBB-	Baa1(2)	BBB
Outlook / Trend	Negative	Stable	Negative	Negative
Viability	-	bbb-	-	-

(1) Negative trend.

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

The Board of Directors

Milan, 4 August 2020

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

1. The undersigned Carlo Messina, as Managing Director and CEO, and Fabrizio Dabbene, as Manager responsible for preparing the Company's financial reports of Intesa Sanpaolo, also taking into account the provisions of Article 154 bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, hereby certify:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the Half-yearly condensed consolidated financial statements, in the first half of 2020.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Half-yearly condensed consolidated financial statements as at 30 June 2020 was based on methods defined by Intesa Sanpaolo consistently with the COSO and, as to the IT component, COBIT models, which are internationally accepted frameworks for internal control systems[21].

3. The undersigned also certify that:

   3.1. the Half-yearly condensed consolidated financial statements as at 30 June 2020:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 of 19 July 2002;
   - correspond to the results of the accounting books and records;
   - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation.

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

Milan, 4 August 2020

Carlo Messina
Managing Director and CEO

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

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

Independent Auditors' Report

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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

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

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Intesa Sanpaolo Group, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2020. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

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

Conclusions

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Intesa Sanpaolo Group as at and for the six months ended 30 June 2020 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 5 August 2020

KPMG S.p.A.

(signed on the original)

Mario Corti
Director

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 30 June 2019 and adjusted income statement for the period ended 30 June 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 30 June 2019 and restated consolidated income statement for the period ended 30 June 2019

Reconciliation between consolidated income statement for the period ended 30 June 2020 and restated consolidated income statement for the period ended 30 June 2020

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 30 June 2019 and adjusted consolidated income statement for the period ended 30 June 2019

(millions of euro)

		30.06.2019 Published	Effect of application of IFRS 5 (a)	30.06.2019 Adjusted
10.	Interest and similar income	5,141	-	5,141
	of which: interest income calculated using the effective interest rate method	*5,309*	-	*5,309*
20.	Interest and similar expense	-1,661	-	-1,661
30.	**Interest margin**	**3,480**	**-**	**3,480**
40.	Fee and commission income	4,803	-198	4,605
50.	Fee and commission expense	-1,164	153	-1,011
60.	**Net fee and commission income**	**3,639**	**-45**	**3,594**
70.	Dividend and similar income	81	-	81
80.	Profits (Losses) on trading	317	2	319
90.	Fair value adjustments in hedge accounting	-39	-	-39
100.	Profits (Losses) on disposal or repurchase of:	814	-	814
	a) financial assets measured at amortised cost	*90*	-	*90*
	b) financial assets measured at fair value through other comprehensive income	*628*	-	*628*
	c) financial liabilities	*96*	-	*96*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	15	-	15
	a) financial assets and liabilities designated at fair value	*-70*	-	*-70*
	b) other financial assets mandatorily measured at fair value	*85*	-	*85*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	2,009	-	2,009
120.	**Net interest and other banking income**	**10,316**	**-43**	**10,273**
130.	Net losses/recoveries for credit risks associated with:	-1,005	-	-1,005
	a) financial assets measured at amortised cost	*-990*	-	*-990*
	b) financial assets measured at fair value through other comprehensive income	*-15*	-	*-15*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-4	-	-4
140.	Profits (Losses) on changes in contracts without derecognition	-2	-	-2
150.	**Net income from banking activities**	**9,305**	**-43**	**9,262**
160.	Net insurance premiums	4,763	-	4,763
170.	Other net insurance income (expense)	-6,086	-	-6,086
180.	**Net income from banking and insurance activities**	**7,982**	**-43**	**7,939**
190.	Administrative expenses:	-4,747	1	-4,746
	a) personnel expenses	*-2,830*	-	*-2,830*
	b) other administrative expenses	*-1,917*	*1*	*-1,916*
200.	Net provisions for risks and charges	-2	-	-2
	a) commitments and guarantees given	*39*	-	*39*
	b) other net provisions	*-41*	-	*-41*
210.	Net adjustments to / recoveries on property and equipment	-259	-	-259
220.	Net adjustments to / recoveries on intangible assets	-325	1	-324
230.	Other operating expenses (income)	420	-	420
240.	**Operating expenses**	**-4,913**	**2**	**-4,911**
250.	Profits (Losses) on investments in associates and companies subject to joint control	27	-	27
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	1	-	1
290.	**Income (Loss) before tax from continuing operations**	**3,097**	**-41**	**3,056**
300.	Taxes on income from continuing operations	-832	11	-821
310.	**Income (Loss) after tax from continuing operations**	**2,265**	**-30**	**2,235**
320.	Income (Loss) after tax from discontinued operations	-	30	30
330.	**Net income (loss)**	**2,265**	**-**	**2,265**
340.	Minority interests	1	-	1
350.	**Parent Company's net income (loss)**	**2,266**	**-**	**2,266**

(a) Income Statement figures of the first six months of 2019 relating to the business line to be contributed to Nexi, pursuant to the agreement signed in December 2019 and finalized in the first half of 2020.

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

(millions of euro)

Assets		31.12.2019 Adjusted	Changes in the scope of consolidation (a)	31.12.2019 Restated
10.	Cash and cash equivalents	9,745	-	9,745
20.	Financial assets measured at fair value through profit or loss	49,414	-	49,414
	a) financial assets held for trading	*45,152*	-	*45,152*
	b) financial assets designated at fair value	*195*	-	*195*
	c) other financial assets mandatorily measured at fair value	*4,067*	-	*4,067*
30.	Financial assets measured at fair value through other comprehensive income	72,410	-	72,410
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	168,202	31	168,233
40.	Financial assets measured at amortised cost	467,815	-	467,815
	a) due from banks	*49,027*	-	*49,027*
	b) loans to customers	*418,788*	-	*418,788*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	37	649
50.	Hedging derivatives	3,029	-	3,029
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,569	-	1,569
70.	Investments in associates and companies subject to joint control	1,240	-	1,240
80.	Technical insurance reserves reassured with third parties	28	-	28
90.	Property and equipment	8,878	4	8,882
100.	Intangible assets	9,211	-	9,211
	of which:			
	- goodwill	*4,055*	-	*4,055*
110.	Tax assets	15,467	9	15,476
	a) current	*1,716*	-	*1,716*
	b) deferred	*13,751*	*9*	*13,760*
120.	Non-current assets held for sale and discontinued operations	494	-	494
130.	Other assets	7,988	387	8,375
Total assets		**816,102**	**468**	**816,570**

(a) The restatement refers to the inclusion in the Group of the company RBM Assicurazione Salute S.p.A.

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2019 Adjusted	Changes in the scope of consolidation (a)	31.12.2019 Restated
10.	Financial liabilities measured at amortised cost	519,382	-	519,382
	a) due to banks	*103,324*	-	*103,324*
	b) due to customers	*331,181*	-	*331,181*
	c) securities issued	*84,877*	-	*84,877*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	-	826
20.	Financial liabilities held for trading	45,226	-	45,226
30.	Financial liabilities designated at fair value	4	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	-	75,935
40.	Hedging derivatives	9,288	-	9,288
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	527	-	527
60.	Tax liabilities	2,321	1	2,322
	a) current	*455*	-	*455*
	b) deferred	*1,866*	*1*	*1,867*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	-	41
80.	Other liabilities	12,070	52	12,122
90.	Employee termination indemnities	1,134	-	1,134
100.	Allowances for risks and charges	3,997	1	3,998
	a) commitments and guarantees given	*482*	-	*482*
	b) post-employment benefits	*232*	-	*232*
	c) other allowances for risks and charges	*3,283*	*1*	*3,284*
110.	Technical reserves	89,136	107	89,243
120.	Valuation reserves	-157	-	-157
125.	Valuation reserves pertaining to insurance companies	504	-	504
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,279	-	13,279
160.	Share premium reserve	25,075	-	25,075
170.	Share capital	9,086	-	9,086
180.	Treasury shares (-)	-104	-	-104
190.	Minority interests (+/-)	247	307	554
200.	Net income (loss) (+/-)	4,182	-	4,182
Total liabilities and shareholders' equity		**816,102**	**468**	**816,570**

(a) The restatement refers to the inclusion in the Group of the company RBM Assicurazione Salute S.p.A.

Reconciliation between adjusted consolidated income statement for the period ended 30 June 2019 and restated consolidated income statement for the period ended 30 June 2019

(millions of euro)

		30.06.2019 Adjusted	Change in the scope of consolidation (a)	Servicing UTP (a)	30.06.2019 Restated
10.	Interest and similar income	5,141	-	-	5,141
	of which: interest income calculated using the effective interest rate method	*5,309*	-	-	*5,309*
20.	Interest and similar expense	-1,661	-	-	-1,661
30.	**Interest margin**	**3,480**	**-**	**-**	**3,480**
40.	Fee and commission income	4,605	-	-	4,605
50.	Fee and commission expense	-1,011	-	-	-1,011
60.	**Net fee and commission income**	**3,594**	**-**	**-**	**3,594**
70.	Dividend and similar income	81	-	-	81
80.	Profits (Losses) on trading	319	-	-	319
90.	Fair value adjustments in hedge accounting	-39	-	-	-39
100.	Profits (Losses) on disposal or repurchase of:	814	-	-	814
	a) financial assets measured at amortised cost	*90*	-	-	*90*
	b) financial assets measured at fair value through other comprehensive income	*628*	-	-	*628*
	c) financial liabilities	*96*	-	-	*96*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	15	-	-	15
	a) financial assets and liabilities designated at fair value	*-70*	-	-	*-70*
	b) other financial assets mandatorily measured at fair value	*85*	-	-	*85*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	2,009	-	-	2,009
120.	**Net interest and other banking income**	**10,273**	**-**	**-**	**10,273**
130.	Net losses/recoveries for credit risks associated with:	-1,005	-	-	-1,005
	a) financial assets measured at amortised cost	*-990*	-	-	*-990*
	b) financial assets measured at fair value through other comprehensive income	*-15*	-	-	*-15*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-4	-	-	-4
140.	Profits (Losses) on changes in contracts without derecognition	-2	-	-	-2
150.	**Net income from banking activities**	**9,262**	**-**	**-**	**9,262**
160.	Net insurance premiums	4,763	211	-	4,974
170.	Other net insurance income (expense)	-6,086	-159	-	-6,245
180.	**Net income from banking and insurance activities**	**7,939**	**52**	**-**	**7,991**
190.	Administrative expenses:	-4,746	-9	-53	-4,808
	a) personnel expenses	*-2,830*	*-2*	-	*-2,832*
	b) other administrative expenses	*-1,916*	*-7*	*-53*	*-1,976*
200.	Net provisions for risks and charges	-2	-	-	-2
	a) commitments and guarantees given	*39*	-	-	*39*
	b) other net provisions	*-41*	-	-	*-41*
210.	Net adjustments to / recoveries on property and equipment	-259	-	-	-259
220.	Net adjustments to / recoveries on intangible assets	-324	-	-	-324
230.	Other operating expenses (income)	420	-	-	420
240.	**Operating expenses**	**-4,911**	**-9**	**-53**	**-4,973**
250.	Profits (Losses) on investments in associates and companies subject to joint control	27	-	-	27
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-
270.	Goodwill impairment	-	-	-	-
280.	Profits (Losses) on disposal of investments	1	-	-	1
290.	**Income (Loss) before tax from continuing operations**	**3,056**	**43**	**-53**	**3,046**
300.	Taxes on income from continuing operations	-821	-13	17	-817
310.	**Income (Loss) after tax from continuing operations**	**2,235**	**30**	**-36**	**2,229**
320.	Income (Loss) after tax from discontinued operations	30	-	-	30
330.	**Net income (loss)**	**2,265**	**30**	**-36**	**2,259**
340.	Minority interests	1	-30	36	7
350.	**Parent Company's net income (loss)**	**2,266**	**-**	**-**	**2,266**

(a) The restatement refers to the economic results of the first six months of 2019 of RBM Assicurazione Salute S.p.A.

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

Reconciliation between the consolidated balance sheet as at 30 June 2020 and the restated consolidated balance sheet as at 30 June 2020

The consolidated balance sheet as at 30 June 2020 did not require any restatement.

Reconciliation between consolidated income statement for the period ended 30 June 2020 and restated consolidated income statement for the period ended 30 June 2020

(millions of euro)

		30.06.2020	Changes in the scope of consolidation (a)	30.06.2020 Restated
10.	Interest and similar income	4,747	-	4,747
	of which: interest income calculated using the effective interest rate method	*4,928*	-	*4,928*
20.	Interest and similar expense	-1,272	-	-1,272
30.	**Interest margin**	**3,475**	**-**	**3,475**
40.	Fee and commission income	4,507	-	4,507
50.	Fee and commission expense	-1,083	-	-1,083
60.	**Net fee and commission income**	**3,424**	**-**	**3,424**
70.	Dividend and similar income	60	-	60
80.	Profits (Losses) on trading	305	-	305
90.	Fair value adjustments in hedge accounting	-12	-	-12
100.	Profits (Losses) on disposal or repurchase of:	798	-	798
	a) financial assets measured at amortised cost	*-29*	-	*-29*
	b) financial assets measured at fair value through other comprehensive income	*620*	-	*620*
	c) financial liabilities	*207*	-	*207*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	109	-	109
	a) financial assets and liabilities designated at fair value	*141*	-	*141*
	b) other financial assets mandatorily measured at fair value	*-32*	-	*-32*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,413	-	1,413
120.	**Net interest and other banking income**	**9,572**	**-**	**9,572**
130.	Net losses/recoveries for credit risks associated with:	-1,718	-	-1,718
	a) financial assets measured at amortised cost	*-1,697*	-	*-1,697*
	b) financial assets measured at fair value through other comprehensive income	*-21*	-	*-21*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-35	-	-35
140.	Profits (Losses) on changes in contracts without derecognition	-8	-	-8
150.	**Net income from banking activities**	**7,811**	**-**	**7,811**
160.	Net insurance premiums	4,461	165	4,626
170.	Other net insurance income (expense)	-5,077	-88	-5,165
180.	**Net income from banking and insurance activities**	**7,195**	**77**	**7,272**
190.	Administrative expenses:	-4,685	-7	-4,692
	a) personnel expenses	*-2,743*	*-2*	*-2,745*
	b) other administrative expenses	*-1,942*	*-5*	*-1,947*
200.	Net provisions for risks and charges	-101	-	-101
	a) commitments and guarantees given	*-39*	-	*-39*
	b) other net provisions	*-62*	-	*-62*
210.	Net adjustments to / recoveries on property and equipment	-256	-	-256
220.	Net adjustments to / recoveries on intangible assets	-365	-	-365
230.	Other operating expenses (income)	331	-	331
240.	**Operating expenses**	**-5,076**	**-7**	**-5,083**
250.	Profits (Losses) on investments in associates and companies subject to joint control	-33	-	-33
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	5	-	5
290.	**Income (Loss) before tax from continuing operations**	**2,091**	**70**	**2,161**
300.	Taxes on income from continuing operations	-668	-21	-689
310.	**Income (Loss) after tax from continuing operations**	**1,423**	**49**	**1,472**
320.	Income (Loss) after tax from discontinued operations	1,136	-	1,136
330.	**Net income (loss)**	**2,559**	**49**	**2,608**
340.	Minority interests	7	-49	-42
350.	**Parent Company’s net income (loss)**	**2,566**	**-**	**2,566**

(a) The restatement refers to the economic results of the first four months of 2020 of RBM Assicurazione Salute S.p.A.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		30.06.2020	31.12.2019 Restated	Changes amount	%
10.	Cash and cash equivalents	7,784	9,745	-1,961	-20.1
20.	Financial assets measured at fair value through profit or loss	60,838	49,414	11,424	23.1
	a) financial assets held for trading	*56,272*	*45,152*	*11,120*	*24.6*
	b) financial assets designated at fair value	*51*	*195*	*-144*	*-73.8*
	c) other financial assets mandatorily measured at fair value	*4,515*	*4,067*	*448*	*11.0*
30.	Financial assets measured at fair value through other comprehensive income	73,778	72,410	1,368	1.9
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	165,342	168,233	-2,891	-1.7
40.	Financial assets measured at amortised cost	497,653	467,815	29,838	6.4
	a) due from banks	*63,459*	*49,027*	*14,432*	*29.4*
	b) loans to customers	*434,194*	*418,788*	*15,406*	*3.7*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	735	649	86	13.3
50.	Hedging derivatives	4,210	3,029	1,181	39.0
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,565	1,569	996	63.5
70.	Investments in associates and companies subject to joint control	1,462	1,240	222	17.9
80.	Technical insurance reserves reassured with third parties	65	28	37	
90.	Property and equipment	8,663	8,882	-219	-2.5
100.	Intangible assets	8,394	9,211	-817	-8.9
	of which:				
	- goodwill	*4,182*	*4,055*	*127*	*3.1*
110.	Tax assets	15,805	15,476	329	2.1
	a) current	*2,139*	*1,716*	*423*	*24.7*
	b) deferred	*13,666*	*13,760*	*-94*	*-0.7*
120.	Non-current assets held for sale and discontinued operations	2,593	494	2,099	
130.	Other assets	8,761	8,375	386	4.6
Total assets		**858,648**	**816,570**	**42,078**	**5.2**

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2020	31.12.2019 Restated	Changes amount	%
10.	Financial liabilities measured at amortised cost	536,565	519,382	17,183	3.3
	a) due to banks	*108,606*	*103,324*	*5,282*	*5.1*
	b) due to customers	*349,842*	*331,181*	*18,661*	*5.6*
	c) securities issued	*78,117*	*84,877*	*-6,760*	*-8.0*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,779	826	953	
20.	Financial liabilities held for trading	55,132	45,226	9,906	21.9
30.	Financial liabilities designated at fair value	2,060	4	2,056	
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,860	75,935	-3,075	-4.0
40.	Hedging derivatives	12,625	9,288	3,337	35.9
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	776	527	249	47.2
60.	Tax liabilities	2,204	2,322	-118	-5.1
	a) current	*350*	*455*	*-105*	*-23.1*
	b) deferred	*1,854*	*1,867*	*-13*	*-0.7*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	2,381	41	2,340	
80.	Other liabilities	18,949	12,122	6,827	56.3
90.	Employee termination indemnities	1,073	1,134	-61	-5.4
100.	Allowances for risks and charges	3,491	3,998	-507	-12.7
	a) commitments and guarantees given	*517*	*482*	*35*	*7.3*
	b) post-employment benefits	*225*	*232*	*-7*	*-3.0*
	c) other allowances for risks and charges	*2,749*	*3,284*	*-535*	*-16.3*
110.	Technical reserves	89,950	89,243	707	0.8
120.	Valuation reserves	-1,441	-157	1,284	
125.	Valuation reserves pertaining to insurance companies	403	504	-101	-20.0
130.	Redeemable shares	-	-	-	
140.	Equity instruments	5,549	4,103	1,446	35.2
150.	Reserves	17,428	13,279	4,149	31.2
160.	Share premium reserve	25,078	25,075	3	0.0
170.	Share capital	9,086	9,086	-	-
180.	Treasury shares (-)	-87	-104	-17	-16.3
190.	Minority interests (+/-)	221	554	-333	-60.1
200.	Net income (loss) (+/-)	2,566	4,182	-1,616	-38.6
Total liabilities and shareholders' equity		**858,648**	**816,570**	**42,078**	**5.2**

Restated consolidated income statement

(millions of euro)

		30.06.2020 Restated	30.06.2019 Restated	Changes amount	%
10.	Interest and similar income	4,747	5,141	-394	-7.7
	of which: interest income calculated using the effective interest rate method	*4,928*	*5,309*	*-381*	*-7.2*
20.	Interest and similar expense	-1,272	-1,661	-389	-23.4
30.	**Interest margin**	**3,475**	**3,480**	**-5**	**-0.1**
40.	Fee and commission income	4,507	4,605	-98	-2.1
50.	Fee and commission expense	-1,083	-1,011	72	7.1
60.	**Net fee and commission income**	**3,424**	**3,594**	**-170**	**-4.7**
70.	Dividend and similar income	60	81	-21	-25.9
80.	Profits (Losses) on trading	305	319	-14	-4.4
90.	Fair value adjustments in hedge accounting	-12	-39	-27	-69.2
100.	Profits (Losses) on disposal or repurchase of:	798	814	-16	-2.0
	a) financial assets measured at amortised cost	*-29*	*90*	*-119*	
	b) financial assets measured at fair value through other comprehensive income	*620*	*628*	*-8*	*-1.3*
	c) financial liabilities	*207*	*96*	*111*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	109	15	94	
	a) financial assets and liabilities designated at fair value	*141*	*-70*	*211*	
	b) other financial assets mandatorily measured at fair value	*-32*	*85*	*-117*	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,413	2,009	-596	-29.7
120.	**Net interest and other banking income**	**9,572**	**10,273**	**-701**	**-6.8**
130.	Net losses/recoveries for credit risks associated with:	-1,718	-1,005	713	70.9
	a) financial assets measured at amortised cost	*-1,697*	*-990*	*707*	*71.4*
	b) financial assets measured at fair value through other comprehensive income	*-21*	*-15*	*6*	*40.0*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-35	-4	31	
140.	Profits (Losses) on changes in contracts without derecognition	-8	-2	6	
150.	**Net income from banking activities**	**7,811**	**9,262**	**-1,451**	**-15.7**
160.	Net insurance premiums	4,626	4,974	-348	-7.0
170.	Other net insurance income (expense)	-5,165	-6,245	-1,080	-17.3
180.	**Net income from banking and insurance activities**	**7,272**	**7,991**	**-719**	**-9.0**
190.	Administrative expenses:	-4,692	-4,808	-116	-2.4
	a) personnel expenses	*-2,745*	*-2,832*	*-87*	*-3.1*
	b) other administrative expenses	*-1,947*	*-1,976*	*-29*	*-1.5*
200.	Net provisions for risks and charges	-101	-2	99	
	a) commitments and guarantees given	*-39*	*39*	*-78*	
	b) other net provisions	*-62*	*-41*	*21*	*51.2*
210.	Net adjustments to / recoveries on property and equipment	-256	-259	-3	-1.2
220.	Net adjustments to / recoveries on intangible assets	-365	-324	41	12.7
230.	Other operating expenses (income)	331	420	-89	-21.2
240.	**Operating expenses**	**-5,083**	**-4,973**	**110**	**2.2**
250.	Profits (Losses) on investments in associates and companies subject to joint control	-33	27	-60	
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	5	1	4	
290.	**Income (Loss) before tax from continuing operations**	**2,161**	**3,046**	**-885**	**-29.1**
300.	Taxes on income from continuing operations	-689	-817	-128	-15.7
310.	**Income (Loss) after tax from continuing operations**	**1,472**	**2,229**	**-757**	**-34.0**
320.	Income (Loss) after tax from discontinued operations	1,136	30	1,106	
330.	**Net income (loss)**	**2,608**	**2,259**	**349**	**15.4**
340.	Minority interests	-42	7	-49	
350.	**Parent Company's net income (loss)**	**2,566**	**2,266**	**300**	**13.2**

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		30.06.2020	31.12.2019 Restated
Due from banks		**61,649**	**47,170**
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	61,641	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	8	6
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers		**403,337**	**395,229**
Loans to customers measured at amortised cost		***402,075***	***394,093***
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	395,895	388,881
- Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-	-670
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	6,180	5,882
Loans to customers at fair value through other comprehensive income and through profit or loss		***1,262***	***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	865	748
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	375	364
Financial assets measured at amortised cost which do not constitute loans		**33,937**	**25,888**
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	1,818	1,863
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	32,119	24,025
Financial assets at fair value through profit or loss		**59,943**	**48,636**
Caption 20a (partial)	Financial assets held for trading	56,250	45,128
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	51	195
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	3,642	3,313
Financial assets at fair value through other comprehensive income		**73,403**	**72,046**
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	73,403	72,046
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		**165,342**	**168,233**
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	165,342	168,233
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**735**	**649**
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	735	649
Investments in associates and companies subject to joint control		**1,462**	**1,240**
Caption 70	Investments in associates and companies subject to joint control	1,462	1,240
Property, equipment and intangible assets		**17,057**	**17,157**
Assets owned		***15,626***	***15,659***
Caption 90 (partial)	Property and equipment	7,232	7,384
Caption 100	Intangible assets	8,394	9,211
- Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-	-936
Rights of use acquired under leases		***1,431***	***1,498***
Caption 90 (partial)	Property and equipment	1,431	1,498
Tax assets		**15,805**	**15,476**
Caption 110	Tax assets	15,805	15,476
Non-current assets held for sale and discontinued operations		**2,593**	**494**
Caption 120	Non-current assets held for sale and discontinued operations	2,593	494
Other assets		**23,385**	**24,352**
Caption 10	Cash and cash equivalents	7,784	9,745
+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-	670
Caption 50	Hedging derivatives	4,210	3,029
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	2,565	1,569
Caption 80	Technical insurance reserves reassured with third parties	65	28
+Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-	936
Caption 130	Other assets	8,761	8,375
Total Assets		**858,648**	**816,570**

(millions of euro)

Liabilities		30.06.2020	31.12.2019 Restated
Due to banks at amortised cost		**108,601**	**103,316**
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	108,606	103,324
- Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-5	-8
Due to customers at amortised cost and securities issued		**426,533**	**414,578**
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	349,842	331,181
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	78,117	84,877
- Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,426	-1,480
Financial liabilities held for trading		**55,132**	**45,226**
Caption 20	Financial liabilities held for trading	55,132	45,226
Financial liabilities designated at fair value		**2,060**	**4**
Caption 30	Financial liabilities designated at fair value	2,060	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**1,771**	**818**
Caption 15	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,779	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		**72,860**	**75,935**
Caption 35	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	72,860	75,935
Tax liabilities		**2,204**	**2,322**
Caption 60	Tax liabilities	2,204	2,322
Liabilities associated with non-current assets held for sale and discontinued operations		**2,381**	**41**
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	2,381	41
Other liabilities		**33,789**	**23,433**
Caption 40	Hedging derivatives	12,625	9,288
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	776	527
Caption 80	Other liabilities	18,949	12,122
Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	5	8
Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,426	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		**89,950**	**89,243**
Caption 110	Technical reserves	89,950	89,243
Allowances for risks and charges		**4,564**	**5,132**
Caption 90	Employee termination indemnities	1,073	1,134
Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	517	482
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	225	232
Caption 100 c)	Allowances for risks and charges - Other allowances for risks and charges	2,749	3,284
Share capital		**9,086**	**9,086**
Caption 170	Share capital	9,086	9,086
Reserves		**42,419**	**38,250**
Caption 130	Redeemable shares	-	-
Caption 150	Reserves	17,428	13,279
Caption 160	Share premium reserve	25,078	25,075
- Caption 180	Treasury shares	-87	-104
Valuation reserves		**-1,441**	**-157**
Caption 120	Valuation reserves	-1,441	-157
Valuation reserves pertaining to insurance companies		**403**	**504**
Caption 125	Valuation reserves pertaining to insurance companies	403	504
Equity instruments		**5,549**	**4,103**
Caption 140	Equity instruments	5,549	4,103
Minority interests		**221**	**554**
Caption 190	Minority interests	221	554
Net income (loss)		**2,566**	**4,182**
Caption 200	Net income (loss) (+/-)	2,566	4,182
Total Liabilities and Shareholders' Equity		**858,648**	**816,570**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions		30.06.2020 Restated	30.06.2019 Restated
Net interest income		**3,497**	**3,517**
Caption 30	Interest margin	3,475	3,480
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	27	52
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-	14
+ Caption 80 (partial)	Hedging swap differentials	-40	-54
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-9	-14
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-	-1
- Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	-9	-18
- Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	53	58
Net fee and commission income		**3,588**	**3,830**
Caption 60	Net fee and commission income	3,424	3,594
- Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	96	132
- Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	2	2
- Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	87	120
+ 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)	-1	3
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-20	-21
Income from insurance business		**736**	**627**
Caption 160	Net insurance premiums	4,626	4,974
Caption 170	Other net insurance income (expense)	-5,165	-6,245
+ Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	-26	-3
+ Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	-96	-132
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,413	2,009
+ Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	9	18
+ Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-23	8
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	-2	-2
Profits (Losses) on financial assets and liabilities designated at fair value		**1,257**	**1,092**
Caption 80	Profits (Losses) on trading	305	319
Caption 90	Fair value adjustments in hedge accounting	-12	-39
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	141	-70
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	-32	85
Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	620	628
Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	207	96
+ Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	-87	-120
+ 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)	60	80
+ 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	27	101
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-	-14
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	23	-8
- Caption 80 (partial)	Hedging swap differentials	40	54
- Caption 80 (partial)	Profits (losses) on trading (Components relating to Profits (losses) on investments in associates and companies subject to joint control (carried at equity))	-47	-
- 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)	8	-12
- Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	-	-8

(millions of euro)

Captions		30.06.2020 Restated	30.06.2019 Restated
Other operating income (expenses)		**-3**	**9**
Caption 70	Dividend and similar income	60	81
Caption 230	Other operating expenses (income)	331	420
+ Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	-53	-58
+ Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	-2	-2
+ 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)	-60	-80
+ Caption 80 (partial)	Profits (losses) on trading (Components relating to Profits (losses) on investments in associates and companies subject to joint control (carried at equity))	47	-
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-6	-9
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-369	-367
- Caption 230 (partial)	Other operating expenses (income) (Non-recurring expenses)	15	-
- 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)	-23	24
Operating income		**9,075**	**9,075**
Personnel expenses		**-2,736**	**-2,807**
Caption 190 a)	Personnel expenses	-2,745	-2,832
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-	11
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	9	14
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-	-
Other administrative expenses		**-1,136**	**-1,212**
Caption 190 b)	Other administrative expenses	-1,947	-1,976
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	22	15
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	394	352
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	20	21
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	369	367
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	6	9
Adjustments to property, equipment and intangible assets		**-531**	**-512**
Caption 210	Net adjustments to / recoveries on property and equipment	-256	-259
Caption 220	Net adjustments to / recoveries on intangible assets	-365	-324
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	2	2
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	10	9
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	11	8
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	34	21
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-	-1
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-	1
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	33	31
Operating costs		**-4,403**	**-4,531**
Operating margin		**4,672**	**4,544**
Net adjustments to loans		**-1,801**	**-923**
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-56	-11
+ 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	-1,715	-967
+ 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)	8	-11
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-5	-
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	-	14
Caption 140	Profits/losses from changes in contracts without derecognition	-8	-2
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	-39	39
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	14	15

(millions of euro)

Captions		30.06.2020 Restated	30.06.2019 Restated
Other net provisions and net impairment losses on other assets		**-157**	**-67**
+ 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)	13	-12
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	-3	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-16	-15
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-35	-4
Caption 260	Valuation differences on property, equipment and intangible assets measured at fair value	-	-
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-62	-41
+ 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)	-7	9
- Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	26	3
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-	1
- Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	-	2
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration)	-	2
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	-	-9
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-	1
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-	-1
+ 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)	-12	-3
Other income (expenses)		**-18**	**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)	27	101
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	-	-
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	-33	27
Caption 280	Profits (Losses) on disposal of investments	5	1
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	-27	-101
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	-	9
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	-10	-9
+ Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
+ Caption 230 (partial)	Other operating expenses (income) (Non-recurring expenses)	-15	
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	23	-24
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	12	3
Income (Loss) from discontinued operations		1,163	41
Caption 320	Income (Loss) after tax from discontinued operations	1,136	30
+ Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	27	11
Gross income (loss)		**3,859**	**3,602**
Taxes on income		**-874**	**-981**
Caption 300	Taxes on income from continuing operations	-689	-817
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-27	-11
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-17	-19
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-24	-32
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-117	-102
Charges (net of tax) for integration and exit incentives		**-50**	**-52**
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	-	-14
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-	-11
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-22	-15
+ 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)	-11	-8
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-34	-21
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	17	19

(millions of euro)

Captions		30.06.2020 Restated	30.06.2019 Restated
Effect of purchase price allocation (net of tax)		**-50**	**-68**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-27	-52
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-14	-15
+ Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	-	-2
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-33	-31
+ Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	24	32
Levies and other charges concerning the banking industry (net of tax)		**-277**	**-242**
+ 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)	-394	-352
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	117	102
Impairment (net of tax) of goodwill and other intangible assets		**-**	**-**
Caption 270	Goodwill impairment	-	-
Minority interests		**-42**	**7**
Caption 340	Minority interests	-42	7
Net income (loss)		**2,566**	**2,266**

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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