INTESA SANPAOLO

Half-yearly report as at 30 June 2016

This is an English translation of the Italian language original "Relazione semestrale al 30 giugno 2016" that has been prepared solely for the convenience of the reader. The Italian language original "Relazione semestrale al 30 giugno 2016" was approved by the Board of Directors of Intesa Sanpaolo on 2 August 2016 and 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 2016

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,731,874,498.36. Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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BANCO DI NAPOLI
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CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA
CASSA DI RISPARMIO DEL VENETO
CARISBO
FIDEURAM INTESA SANPAOLO PRIVATE BANKING
MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,184	Fideuram	89
	Banca Prossima	29
	Mediocredito Italiano	2
	Banca IMI	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
209	CR del Veneto	309
	CR in Bologna	163
	CR del Friuli Venezia Giulia	94
	CR di Forlì e della Romagna	81
	Fideuram	57
	Banca Prossima	16
	Mediocredito Italiano	2

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
407	Banca CR Firenze	401
	Fideuram	42
	Banca Prossima	9
	Banco di Napoli	3
	Mediocredito Italiano	2
	Banca IMI	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
94	Banco di Napoli	563
	Fideuram	27
	Banca Prossima	20
	Mediocredito Italiano	2

ISLANDS

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

Figures as at 30 June 2016

Product Companies

INTESA SANPAOLO VITA

Bancassurance and Pension Funds

EurizonCapital

Asset Management

SIREFID

Fiduciary Services

MEDIOCREDITO ITALIANO

Industrial credit, Factoring and Leasing

SETEFI

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The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

ALEXBANK | بنك الإسكندرية

BANCA IMI

BANCA INTESA

BANCA INTESA Beograd

BANKA KOPER

CIB BANK

FIDEURAM INTESA SANPAOLO PRIVATE BANKING

INTESA SANPAOLO BANK Albania

INTESA SANPAOLO BANK LUXEMBOURG

INTESA SANPAOLO BANK Romania

INTESA SANPAOLO BANKA Bosna i Hercegovina

INTESA SANPAOLO BANK IRELAND

INTESA SANPAOLO BRASIL SA

INTESA SANPAOLO PRIVATE BANK SUISSE

PRAVEX-BANK

PRIVREDNA BANKA ZAGREB

VÚB BANKA

AMERICA

Direct Branches	Representative Offices
George Town	Santiago
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

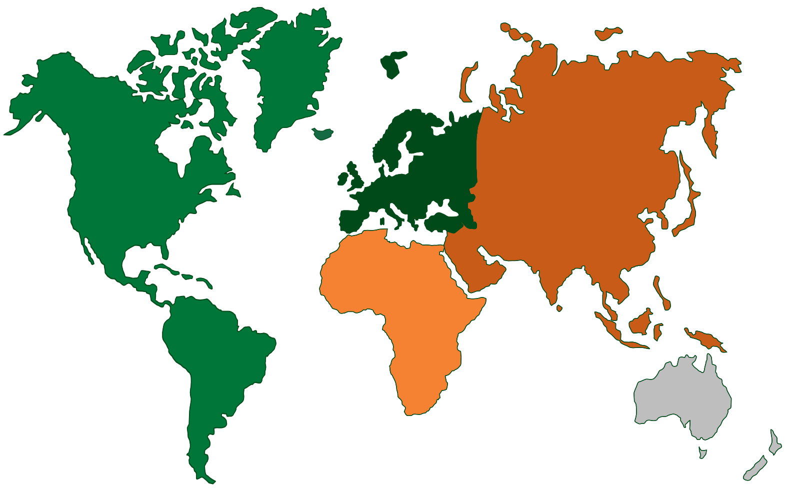
Representative Offices
Sydney

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	Istanbul
London	Moscow
Madrid	
Paris	
Warsaw	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	32
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	52
Croatia	Privredna Banka Zagreb	197
Czech Republic	VUB Banka	1
Hungary	CIB Bank	83
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram	1
	Intesa Sanpaolo Bank Luxembourg	1
Romania	Intesa Sanpaolo Bank Romania	45
Russian Federation	Banca Intesa	46
Serbia	Banca Intesa Beograd	168
Slovakia	VUB Banka	228
Slovenia	Banka Koper	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex-Bank	97
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Banking	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	171
Casablanca			
Tunis			

Figures as at 30 June 2016
(1) International and Regulatory Affairs

Product Companies

CONSUMER FINANCE HOLDING · INTESA SANPAOLO CARD · PBZ CARD

Consumer Credit, E-money and Payment Systems

CIB INVESTMENT FUND MANAGEMENT · Eurizon Capital s.a. · FIDEURAM Asset Management (Ireland) · PBZ INVEST · VÚB ASSET MANAGEMENT

Asset Management

CIB LEASING · INTESA LEASING Beograd · PBZ LEASING · VÚB LEASING

Leasing

VÚB FACTORING · CIB FACTOR

Factoring

INTESA SANPAOLO LIFE

Insurance

Board of Directors, Manager responsible for preparing the Company's financial reports and Independent Auditors

Board of Directors

Chairman	Gian Maria GROS-PIETRO
Deputy Chairperson	Paolo Andrea COLOMBO
Managing Director and Chief Executive Officer	Carlo MESSINA (a)
Directors	Gianfranco CARBONATO Franco CERUTI Francesca CORNELLI Giovanni COSTA Edoardo GAFFEO (*) Giorgina GALLO Giovanni GORNO TEMPINI Rossella LOCATELLI Marco MANGIAGALLI (**) Maria MAZZARELLA Milena Teresa MOTTA (*) Bruno PICCA Alberto Maria PISANI (*) Livia POMODORO Daniele ZAMBONI Maria Cristina ZOPPO (*)

Manager responsible for preparing the company's financial reports — Fabrizio DABBENE

Independent Auditors — KPMG S.p.A.

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

Half-yearly report on operations

Introduction

The "Half-yearly Report as at 30 June 2016" is made up of the Half-yearly report on operations and the Half-yearly condensed consolidated financial statements including the financial statements and related explanatory notes.

The "Half-yearly condensed consolidated financial statements as at 30 June 2016" 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, 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.

The website of Intesa Sanpaolo, at www.group.intesasanpaolo.com, contains the press releases issued during the period together with other financial documents.

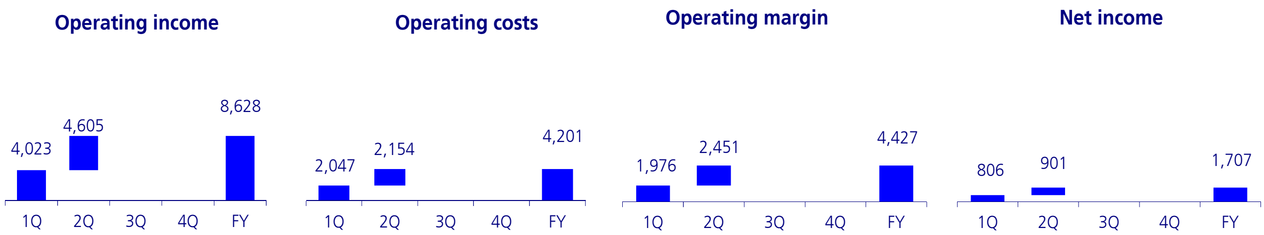
Overview of the first half 2016

Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)

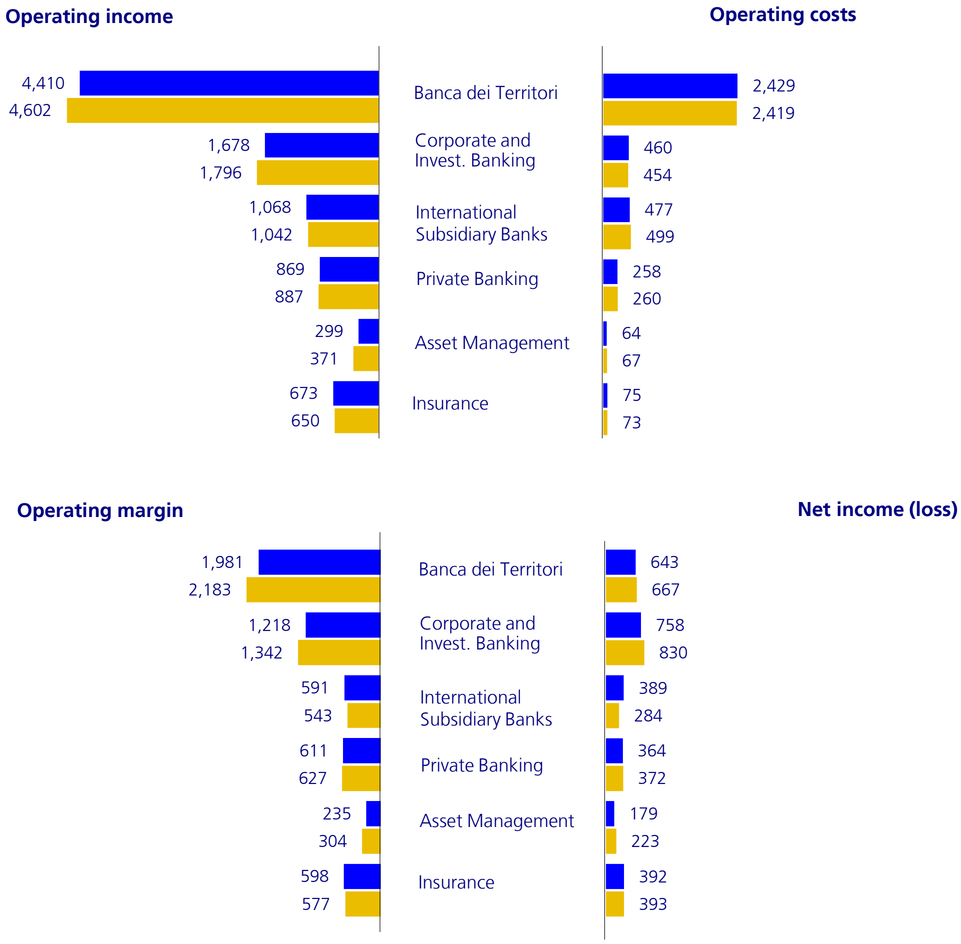
	30.06.2016	30.06.2015	Changes amount	Changes %
Net interest income	3,686	3,904	-218	-5.6
Net fee and commission income	3,524	3,716	-192	-5.2
Profits (losses) on trading	695	976	-281	-28.8
Income from insurance business	571	625	-54	-8.6
Operating income	8,628	9,139	-511	-5.6
Operating costs	-4,201	-4,205	-4	-0.1
Operating margin	4,427	4,934	-507	-10.3
Net adjustments to loans	-1,617	-1,614	3	0.2
Income (Loss) after tax from discontinued operations	28	29	-1	-3.4
Net income (loss)	1,707	2,004	-297	-14.8

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



30.06.2016
30.06.2015

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



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

Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)	30.06.2016	31.12.2015	Changes amount	Changes %
Financial assets	264,158	237,980	26,178	11.0
of which: Insurance Companies	*137,935*	*128,893*	*9,042*	*7.0*
Loans to customers	360,240	347,333	12,907	3.7
Total assets	717,292	676,568	40,724	6.0
Direct deposits from banking business	386,757	372,200	14,557	3.9
Direct deposits from insurance business and technical reserves	139,535	132,948	6,587	5.0
Indirect deposits:	452,486	468,425	-15,939	-3.4
of which: Assets under management	*301,326*	*302,514*	*-1,188*	*-0.4*
Shareholders' equity	47,527	47,776	-249	-0.5

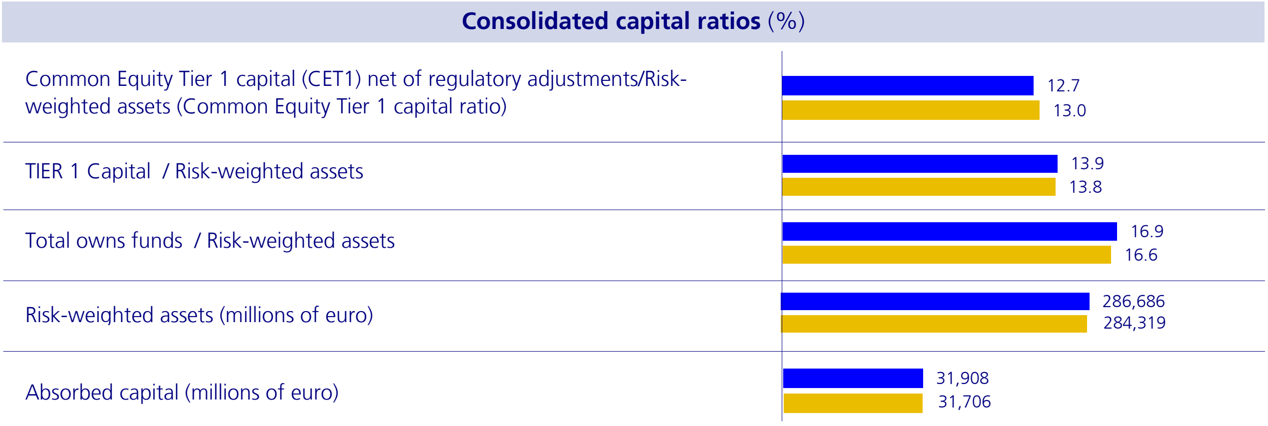
Main balance sheet figures by business area (millions of euro)

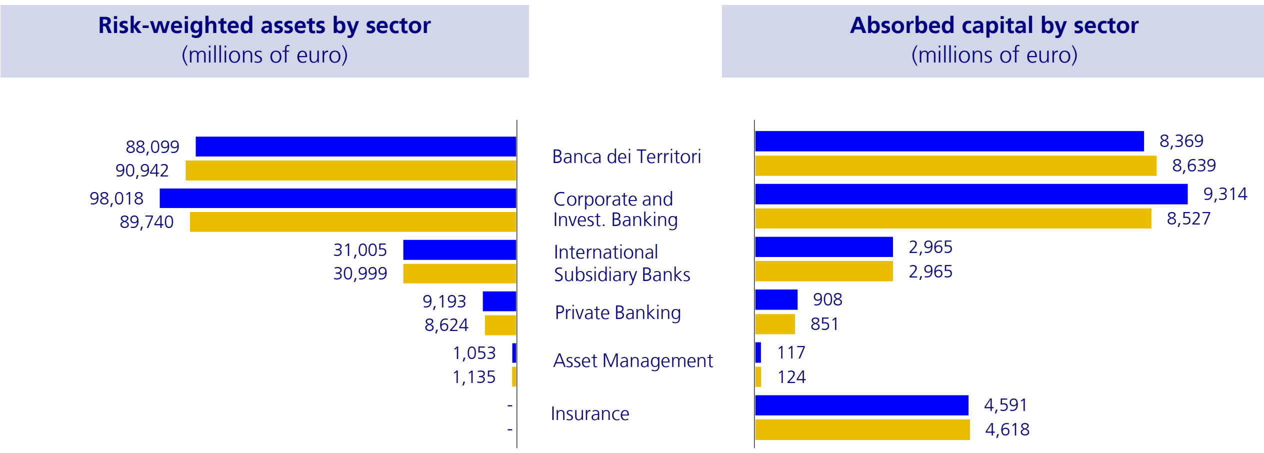
	Loans to customers 30.06.2016	Loans to customers 31.12.2015	Direct deposits from banking business 30.06.2016	Direct deposits from banking business 31.12.2015
Banca dei Territori	187,302	184,522	163,740	159,854
Corporate and Invest. Banking	97,930	89,691	110,152	109,915
International Subsidiary Banks	26,207	25,818	32,807	32,456
Private Banking	9,817	8,971	23,745	20,922
Asset Management	270	372	8	9
Insurance	29	24	208	196

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

30.06.2016
31.12.2015

Other alternative performance measures





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

Consolidated profitability ratios (%)

	30.06.2016	31.12.2015
Cost / Income	48.7	46.0
Net income / Average shareholders' equity (ROE) [(a)]	7.0	8.9
Net income / Total assets (ROA) [(b)]	0.5	0.6

Earnings per share (euro)

	30.06.2016	31.12.2015
Basic earnings per share (basic EPS) [(c)]	0.10	0.12
Diluted earnings per share (diluted EPS) [(d)]	0.10	0.12

Consolidated risk ratios (%)

	30.06.2016	31.12.2015
Net bad loans / Loans to customers	4.2	4.3
Cumulated adjustments on bad loans / Gross bad loans to customers	60.7	61.8

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

[(a)] Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period with the exception of non-recurring components, has been annualised.

[(b)] The figure for the period has been annualised.

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

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

Operating structure	30.06.2016	31.12.2015	Changes amount
Number of employees	**89,914**	**90,134**	**-220**
Italy	64,272	64,114	158
Abroad	25,642	26,020	-378
Number of financial advisors	**5,068**	**5,050**	**18**
Number of branches [(a)]	**5,242**	**5,386**	**-144**
Italy	4,047	4,144	-97
Abroad	1,195	1,242	-47

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.
[(a)] Including Retail Branches, SME Branches and Corporate Branches.

30.06.2016
31.12.2015

Executive summary

The macroeconomic context

The economy and the financial and currency markets

The global economy continued along a path of moderate expansion in the first half of 2016. Following a start of year with strong volatility in the financial markets, the return of more encouraging economic data and a parallel decline in risk aversion led to a stabilisation of prices and a return of capital flows towards emerging countries. The prices of commodities, including oil, started to recover after their collapse in January.

The referendum held in the United Kingdom to decide whether it should remain in the European Union was won by the Leave campaign. The result surprised investors. However, market disruption was relatively limited, and the only lasting effect is a large but expected devaluation of the pound sterling. Over the coming months we shall see the effects on confidence levels and on the trend in domestic demand in the UK, and hence any implications for European economic growth.

As in 2015, this year as well, US growth was very low in the first quarter and then picked up again in the second. Employment and income continue to grow, and economic surveys show signs of recovery in the manufacturing sector. In view of the uncertainties on the global scenario, the Federal Reserve kept official interest rates unchanged, while continuing to report its intention to raise them in 2016.

Contrasting economic indications were also seen in the Eurozone. In the first quarter GDP growth was higher than forecast, but with a parallel weakening of confidence indicators. In the second quarter the trend in industrial production fluctuated, and on the whole was indicative of a contraction compared to the first three months of the year. It is therefore likely that the quarterly GDP growth slowed in the April-June period, reflecting the weaker trend in exports. The annual change in GDP remains more or less the same and above 1.5%, a sufficient level to promote a rise in employment and the absorption of unemployment. Inflation returned to negative ground in February and March, reflecting the downturn in energy commodities, but subsequently returned to zero. The external value of the euro has risen by about 2% since the end of 2015 with an increase that was concentrated mainly in the first two months.

The European economic context is also complicated by political factors. In addition to the British referendum, it should be noted that the Spanish general election also proved inconclusive, indicating the formation of a government devoid of reliable parliamentary support. The Spanish political instability was accompanied by a significant overrun of its fiscal targets in 2015. Nonetheless, the risk premium paid on sovereign debt remained low and stable.

To deal with a worse trend in the real economy and prices than forecast, in addition to a highly uncertain general context, in March the ECB announced new monetary policy measures, some of which were already implemented in the second quarter. The deposit rate, which currently acts as the main benchmark rate, was reduced from -0.30% to -0.40%. The rate on the main refinancing operations was cut from 0.05% to zero, while the marginal refinancing rate dropped to 0.25%. The ECB also included non-bank corporate bonds in its purchase programme, which rose from 60 billion euro to 80 billion euro per month. A new long-term refinancing programme was also launched in June, called TLTRO II, on the basis of which monetary and financial institutions in the Eurozone can obtain 4-year secured loans from the ECB. The interest rate applied is the main refinancing operations rate, which becomes the lower deposit rate if the conditions on the minimum performance of loans are met.

Despite the decrease in exports, thanks to the growth in domestic demand the Italian economy showed a marginally higher growth in GDP in the first quarter compared to the end of 2015 (0.3% quarter on quarter, with a 1% growth in trend). During the second quarter, however, the trend in industrial production became more volatile, anticipating a negative contribution to GDP growth. The climate of confidence among businesses and firms worsened in the services sector, while it remained more or less stable in industry and rose in construction. Growth in employment, which was robust in 2015 due to reforms and incentives on contributions, lost ground between the end of 2015 and the start of 2016, but it began to rise again in the second quarter. Fiscal policy took on a prudent approach, marked by a further reduction in the primary surplus against a faster drop in interest expense than expected. Based on the planned fiscal scenario, debt will only be marginally reduced in 2016.

Spreads with German debt yields widened during the financial turmoil of January and February and again after the British referendum and the emergence of tensions in the banking sector. On the ten-year maturity, the BTP-Bund spread closed the half year at 147 basis points, up by 51 basis points compared to the end of 2015. However after the end of the quarter there was new shrinkage. Yields on Italian government debt declined as a result of the general decrease in medium and long-term interest rates. As at 30 June, the 10-year BTP yielded 1.35%, compared to 1.60% at the end of 2015.

With regard to equity markets, the first half of 2016 featured heightened volatility of share prices, and a strong rise in risk aversion by investors in all the major international markets. These trends emerged from the very first trading sessions of the year, penalising, in particular, the peripheral Eurozone markets (such as Italy, Spain and Greece).

The decline in stock prices can be attributed to several macroeconomic factors, linked to specific sectors. The macroeconomic outlook was affected by the sharp fluctuations in oil prices, the slowdown in economic activity in China, the emerging countries and the oil producing ones, the uncertainties about the timing of US monetary policy, the United Kingdom's referendum on its membership of the European Union.

At sector level, investors' concerns about the quality of bank assets, the levels of coverage of non-performing exposures and the levels of capital of various banking systems in the Eurozone all had an impact. Furthermore, the automotive and luxury goods sectors were affected by fears of new additional costs to contain emissions, and a future drop in demand from emerging markets, respectively.

After hitting a low around the middle of February, equity markets found initial support in the ECB's monetary policy decisions at the beginning of March (which strengthened an already clearly expansionary stance), and in the rebound in oil prices, after the sharp downturn at the beginning of the year.
In the following months, the first quarter earnings season turned out better than expected on the whole, and provided additional support for prices, mitigating fears of a marked slowdown in global economic growth.
In June, equity markets were widely influenced by expectations about the result of the referendum in the United Kingdom, in a setting of high and unusual volatility. The unexpected victory of the Leave camp caused a violent downward adjustment of quoted prices, and a new surge in investor risk aversion, in a phase of uncertainty about the political and economic scenarios expected in the second half of the year.
The EuroStoxx index closed the quarter down by 11.3%; the CAC 40 declined by 8.6% at the end of the period, while the loss of the Dax 30 came to 9.9%; the IBEX 35 index closed the period down by 14.5%. Outside the Eurozone, the Swiss market index SMI depreciated by 9.1%, while the United Kingdom's FTSE 100 index closed the quarter marginally up (+4.2%).
The S&P 500 index closed the period positively at +2.7%, having recovered from the mid-February lows of -10.5%; the major equity markets in Asia reported generally negative performances: the Chinese benchmark index SSE A-Share closed the first half down by 17.2%, whereas the Nikkei 225 index decreased by 18.2% at the end of June.
The Italian stock market underperformed the other international benchmarks in the first half, partly due to the high incidence of the banking sector (21% in the FTSE MIB index), and Financial Institutions in general, which were particularly penalised in the period by investors. The FTSE MIB index closed at the end of June in sharp decline (-24.4%), close to the lows recorded on 11 February (-26.4%); the FTSE Italia All Share index closed the first half at -23.5%. The performance of mid-caps was slightly more defensive, with the FTSE Italia STAR index down by 19.8% at the end of the half year.
The European corporate markets closed the first half of 2016 with differentiated performances in the investment-grade (IG) segment, with "non-financial" stocks benefiting from the support provided by the ECB's new purchase program (CSPP). Also in this half year volatility remained high, accentuated by the continuing shortage of liquidity on the secondary market - partly due to regulations which limited the capacity of the markets to promptly absorb excess supply during downturns.
In the first months of the year the European corporate bond market was characterized by high negativity. The combination of a number of factors such as sharp fluctuations in oil prices, renewed concerns about a possibly more extensive slowdown than forecast in the Chinese economy and growing fears relating to profitability and stability in the banking sector weighed on the risk appetite of investors and caused a sudden expansion of spreads.
The situation changed drastically at the beginning of March, when the ECB's announcement that even non-financial, corporate IG bonds, would also be included in its purchase programmes had a very positive impact on the markets. The "technical support" for prices provided by the presence on the market of a potential buyer like the ECB also continued in the rest of the half year, making it possible to limit the negative impact on spreads due to the unexpected victory of the Leave camp in the UK referendum. Operationally, the ECB began its corporate bond purchases at the beginning of June, with weekly volumes at present higher than market expectations (the ECB did not provide an explicit target in terms of monthly amounts).
During the quarter, in the IG segment, industrial securities outperformed financial securities, which were excluded from the assets eligible for purchase by the ECB, with the former recording a narrowing of spreads of around 15%, while financial securities closed the period on a negative note, having been affected by renewed fears about the solidity of the banking sector. At the same time, the search for yield by investors, with yields at historic lows, or even negative, for the less risky asset classes, was reflected in the positive performance of High Yield securities, with spreads narrowing by about 10%. On the other hand, the trend was negative for the iTraxx indices (CDS - Credit Default Swaps - indices, that summarise the market's perception of riskiness), which do not directly benefit from the Central Bank's purchase programme.
In terms of new issues, after a rather weak start to the year, the primary market saw a substantial recovery in activity in the following months. Thanks to favourable funding conditions individual companies continued to show interest in transactions aimed at financial optimisation, through the repurchase of issued securities and their replacement with longer-term securities at more favourable conditions.

The emerging economies and markets

During the first quarter of 2016 the annual growth rate of GDP for a sample accounting for 75% of emerging countries was equal to 3.7%, substantially unchanged with respect to the fourth quarter of 2015, but still below the average growth figure of 5% over the last 5 years. Looking at the major economies, in the early months of 2016 Brazil (-5.4%) and Russia (-1.2%) suffered a further decline in GDP whilst China (+6.7%) and, especially, India (+7.4%) continued to expand at relatively fast paces. In countries with ISP subsidiaries, in the first quarter, GDP growth slowed in the EEC countries, in particular in Hungary (GDP +0.9%) and accelerated in the EEA countries, especially in Serbia (GDP +3.2%), where recovery of the cycle occurred later. Also in Europe, Ukraine came out of recession after eight quarters (GDP growth was +0.1% in the first quarter). In the MENA countries, in the first four months of 2016 the industrial production index in Egypt (GDP data is still not available) reported a significant drop (-10.4% year on year), mainly due to the tourism segment.
The year-on-year inflation rate for the same sample of emerging economies fell from 4.8% in December 2015 to 4.1% in May 2016. The slowdown was driven by the disappearance of previous pressures exerted by the large depreciation of exchange rates in some BRIC countries such as Brazil (where yoy inflation rate fell from 10.7% at the end of 2015 to 9.3% in May 2016) and Russia (where it decreased over the same period from 12.9% to 7.5%) and in several other countries such as Ukraine (from 43.3% to 7.5%) and Turkey (from 8.8% to 7.6%). However inflation increased in Egypt (from 11.1% to 12.3%) due to an increase in prices of imported goods, some foodstuffs and services. Price changes in the CEE and SEE countries with ISP subsidiaries were particularly low and below the lower limits of the target ranges set by the Central Banks.
Although overall expansive, monetary policies were differentiated in the emerging countries. In Asia, China reduced the mandatory reserve ratio by 50 basis points in February, while interest rates were cut in India (50 basis points at the beginning of April), Indonesia (four 25bps cuts, with the benchmark rate at 6.50%) and the Philippines. Conversely residual inflationary pressures and the weakness of the exchange rate triggered increases in rates in some Latin American countries (Mexico, Colombia, Chile and Peru) and in South Africa. Amongst the other emerging economies, Egypt also raised its rates on two separate occasions (in March and June

for a total 250 percentage points) to support the exchange rate and fight inflationary pressures, while Turkey repeatedly cut its maximum rate (from 10.75% to 9%).
In the CEE and SEE countries, the fall of inflation below the target values favored rate cuts in Hungary, Albania, Romania and Serbia. In the CIS countries, even Russia and Ukraine, after initial caution in the early months of the year due to currency pressures, made new reductions to their benchmark rates (from 11% to 10.5% and from 22% to 16.5% respectively), triggered by the large fall in inflation.

On the financial markets, the MSCI emerging markets equity index remained substantially the same in the first half (-0.1%). The weakness of the Asian markets, in particular the Chinese one with a drop in the Shanghai index of almost 20% due to concerns regarding the outlook for the economy and financial stability, was offset by the recovery of other important markets subject to sharp sales in 2015. In particular, there were two digit increases on the Moscow market (+24%), helped by the recovery of the oil price, and the markets in Sao Paulo (+17.3%) and Buenos Aires (+19.3%), the last two based on expectations of changes in economic policy management. With regard to the countries with ISP subsidiaries, the CEE and CEE market indices outperformed the Euro Stoxx (down 12% from January to June) with Slovakia, Slovenia and Hungary on positive ground. Ukraine also saw an increase in prices (+5.7%) while Egypt (-2.2%), affected by signs of an economic slowdown, lost in the second quarter the earnings it made in the first.
In the first half-year the OITP index, which expresses the dollar's performance against a basket of emerging market currencies, increased by 1.1%; this increase was in addition to the +10.2% recorded in 2015. The dollar strengthened against both the currencies of countries exporting manufactured goods in Asia (India and China) and in Latin America (Mexico), as well as of countries exposed to the hydrocarbons cycle such as Nigeria and Venezuela. In countries with ISP subsidiaries the Russian rouble grew by 11.8% against the dollar, supported by the recovery in the price of oil, while the Ukrainian hryvnia, although depreciating 3.3% with reference to the entire half year, actually recovered part of the ground lost in the first quarter over concerns about political stability during the second quarter. In March, faced with unsustainable pressures on currency reserves, Egypt devalued the pound by 13% and, at the same time, announced a move to a more flexible currency regime. The currencies of the Central and South Eastern European countries mostly remained stable against the Euro that over the half year increased its value by 2.3% over the dollar.
The abundant liquidity on the international capital markets fostered a generalized although small (-8 basis points) shrinkage of the EMBI+ spread. The narrowing was greater in Africa (-13 basis points) and Latin America (-12 basis points). With regard to countries with ISP subsidiaries, the spread decreased in Russia (-60 basis points to 290 basis points) and also in the CEE and the SEE countries, while it expanded in Egypt (+50 basis points to 540 basis points).
The deterioration of their fiscal and external positions due to the fall in the prices of hydrocarbons induced the principal rating agencies to downgrade, in the first half of 2016, their foreign currency sovereign debt credit ratings on several oil producing countries both in the Gulf (like Saudi Arabia, Oman and Bahrain) and in the CIS and sub-Saharan areas (among which Kazakhstan, Angola and Nigeria). In Latin America, further rating reductions affected Brazil whilst Argentina, after its debt agreement, is no longer considered selective default. Regarding the countries with ISP subsidiaries, Hungary was brought to investment grade by Fitch while S&P introduced a negative outlook in its rating (B-) of Egypt.

The banking system

Rates and spreads

During the second quarter of 2016 the gradual decline continued in the cost of funding, which recorded constant downwards adjustments. This trend was affected by the smaller weight of more costly components on the one hand, and the substantial stabilisation of interest rates on current accounts on the other, which was countered by a more evident downturn in the rates on time deposits. The minimum level reached by interest rates on current accounts justifies the slowdown in the decreasing trend. The average rate on stocks of bonds also reported slight downward changes.
Regarding the average rate on new loans to non-financial companies, after the halt in the first quarter, the decline began again in the second. This performance continued to be impacted by the fluctuations in the interest rate on new loans exceeding 1 million euro, while the rate on transactions of lower amounts recorded small downwards adjustments with respect to the minimum reached in March. At the same time, the decrease in interest rates on new loans to households for house purchase continued without interruption. The very favourable lending environment is also clear from a comparison between Italian rates on new loans to businesses and the average rates for the Eurozone. In the second quarter, spreads remained very low, if not negative, as in the case of interest rates on new loans exceeding 1 million euro, which in some months recorded relatively more beneficial conditions for Italian borrowers compared to the average in the Eurozone. In this scenario, also due to the decrease in benchmark rates for outstanding floating rate loans, the reduction of interest rates on amounts of loans continued, with the overall average rate dropping to new record lows.
Due to a sharper decline in the average lending rate than in the cost of funding, the banking spread further decreased (estimated average of 2.10% in the second quarter, from 2.18% in the first quarter of 2016 and 2.23% of the 2015 average). The contribution from deposits, measured on short-term rates, significantly worsened as a result of increasingly negative Euribor rates (mark-down[1] on the 1-month Euribor estimated at -0.48% in the second quarter, from -0.40% in the first and -0.27% on average for 2015). The significant drop in short-term lending rates provided a falling return of the mark-up[2] on the 1-month Euribor, which was confirmed at its lowest levels since the end of 2011 (3.96% on average in the two-month period April-May, from 4.09% in the first quarter of 2016 that had marked a small upturn on the 4.04% of the last quarter of 2015).

[1] Difference between the 1-month Euribor and interest rates on household and business current accounts.
[2] Difference between the interest rate applied to households and businesses on loans with maturity up to one year and the 1-month Euribor.

Loans

The improvement in the trend of bank loans to the private sector continued, although growth remained very modest and limited to some business segments. Specifically, the recovery in loans to consumer households gained strength and the growth in loans to non-financial companies operating in the manufacturing industry was confirmed, while loans to construction companies continued to decline. In the second quarter, total loans to non-financial companies remained stagnant. The growth of medium-term loans continued to be offset by the negative trend of the short-term ones.
For loans to households, the improvement in the market scenario gained strength, with the easing of conditions for residential mortgages under way for three years. The growth in the stock of loans to households also accelerated moderately in the second quarter of 2016. This recovery is still driven by the significant trend in the disbursement of residential mortgages, only partially due to the renegotiation of existing loans. Specifically, the sharp growth in the disbursement of fixed-rate mortgages continued, justified by the very low levels of interest rates applied and a small spread between the fixed and floating rates. Consumer credit also grew, driven by purchases of durable goods.
The performance of loans was boosted by the demand from several segments, in addition to the easing of supply conditions, in a dynamic competitive scenario. According to the credit survey conducted by the Bank of Italy on banks, demand from businesses also confirmed its increasing trend in the second quarter, although more moderate compared to the four previous measurements. Expectations for the third quarter of 2016 are also more cautious compared to previous periods, although they are still targeting a further increase in demand. The same trend characterises the opinions and expectations on the demand for loans from households, that is indicated as still being on the rise, but less sustained compared to previous quarters. Demand remains particularly lively for loans for the purchase of houses and more moderate for consumer credit. Among the factors that determine credit supply, competitive pressure continued to significantly encourage the easing of credit access conditions. However, a greater prudence on the part of the banks with respect to the perceived risks was revealed, although the latter continue to justify an expansionary offer stance. Companies’ opinions on credit access conditions also confirmed their improvement.
The growth of the stock of bad loans continued to slow, based on the latest information available, and in the first quarter the slowdown of the flow of new non-performing loans as a ratio of the ongoing loans was confirmed.

Direct deposits

As regards funding, previous trends were confirmed, specifically for deposits, which grew, driven by the significant growth in overnight deposits. At the same time, the double digit decline in time deposits continued. The performance of customer deposits was driven by the lively trend in deposits by non-financial companies, though with high variability, and the solidity of household deposits, characterised by a moderate year-on-year change but more robust from March onwards compared to what was reported in the previous twelve months. The growth in deposits continued to be offset by the reduction in the stock of bank bonds, the trend of which was affected by customer portfolio reallocation processes. On the whole, at system-wide level, customer deposits remained stable, despite the disruptive introduction of the new mechanism for managing banking crises, specifically the bail-in. In total, deposits were found to be moderately reduced, smaller on average over the quarter compared to the figures recorded in the first months of the year.

Indirect deposits and asset management

With regard to assets under administration, the sharp decline in debt securities held in custody by banks on behalf of households continued. This performance was also impacted by the constant decline of bank bonds and the limited attractiveness of government bonds in a scenario of negative interest rates, added to which there was also the adjustment of mutual funds.

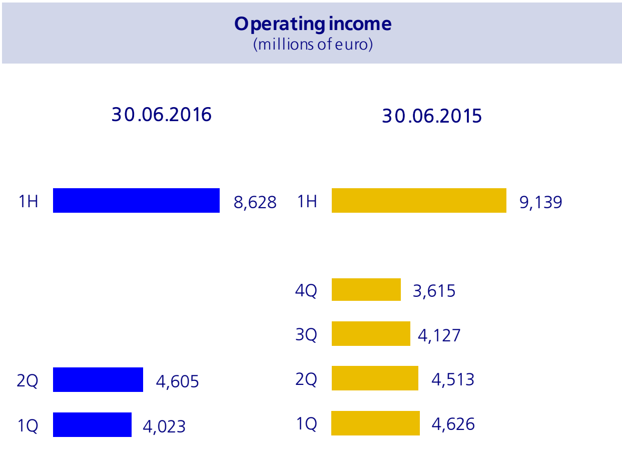
With reference to the asset management sector, the first six months of 2016 were characterized by much more moderate flows compared to the same period in 2015, including due to the turmoil on the financial markets and the yields approaching zero offered in the bond segment. At the beginning of 2016, flows intermediated through management mandates exceeded those managed by mutual funds. Assets under management of mutual funds came to around 848 billion euro in June, up by 1.2% on the same month of 2015, while assets managed through mandates exceeded 970 billion euro, up by 8.6% year on year. Inflows for portfolio management were dominated by institutional inflows, which more than offset the slight decrease in retail portfolio management. Among the mutual funds, inflows were driven by the flexible funds; the bond funds and balanced funds also held, although the first had started the year in negative territory; after a very positive start of year, in the second quarter, the money market funds recorded continuous outflows, bringing the cumulative figure into negative territory. As regards domiciliation of funds, inflows were dominated by "roundtrip" products (foreign funds promoted by Italian operators), while flows sent to domestic funds were only marginally positive.

With regard to the insurance sector, new life business in the first five months of 2016 was highly positive, though lower than the record values recorded in the same period of 2015 (year-on-year total drop of -10.5%). Compared to 2015 there was a turnaround as regards the types of products placed: subscriptions of class I and V products (known as traditional products) saw an upturn (+2.6%), while subscriptions of insurance products with higher financial content (class III) decreased by 42%.

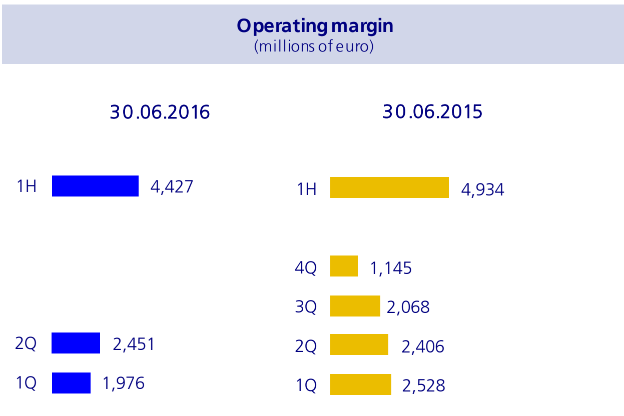
Intesa Sanpaolo in the first half of 2016

Consolidated results

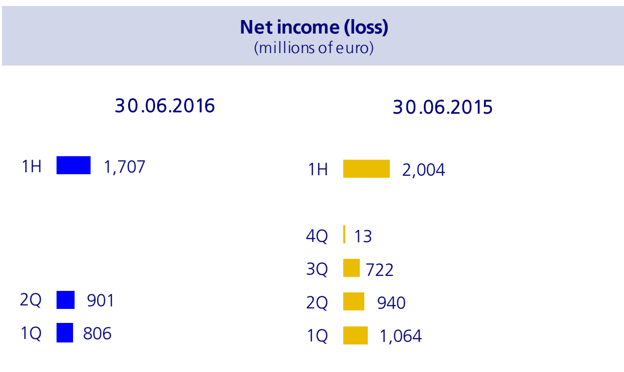
The scenario in the first half of 2016 was characterised by the performance of the real economy which was still below forecasts, with residual factors of instability, complicated as well by political factors at European level.
In a market context that continues to be difficult, the Intesa Sanpaolo Group closed the first half of 2016 with net income of 1,707 million euro. The more modest income than that of the first half of the previous year, which amounted to 2,004 million euro, is attributable to lower operating income, including the smaller contribution of trading – which back then had benefited from more favourable market conditions – in the presence of structural oversight of operating costs and stability in adjustments to loans.



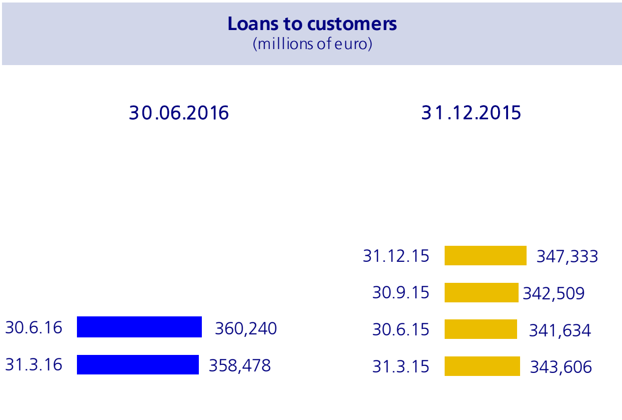
A detailed breakdown of the components of operating income shows that the income statement for the first half recorded net interest income of 3,686 million euro, down 5.6% compared to the first half of 2015, as a result of the performance of the contribution of relations with customers and, to a lesser extent, lower interest from financial assets.
The contribution of the companies carried at equity was 158 million euro, a significant increase compared to the 54 million euro of the first half of 2015. The services segment generated net fee and commission income of 3,524 million euro, down 5.2% on the same period of 2015, mainly in relation to the performance of the management and dealing activity, which was affected by the unfavourable situation.
In the first half of 2016, trading activities yielded a profit of 695 million euro, approximately 29% lower than the first half of 2015, which – as indicated previously – benefited from particularly favourable market conditions.
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, showed a downward trend, amounting to 571 million euro, compared to the 625 million euro recorded in the first half of 2015.
Other operating expenses, net of income, amounted to a total of 6 million in the half-year and include income of 170 million euro from the Visa Europe shares, which was largely absorbed by the contributions paid into the resolution fund as part of the new mechanism for managing banking crisis, which amounted to 148 million euro and related to the entire 2016.



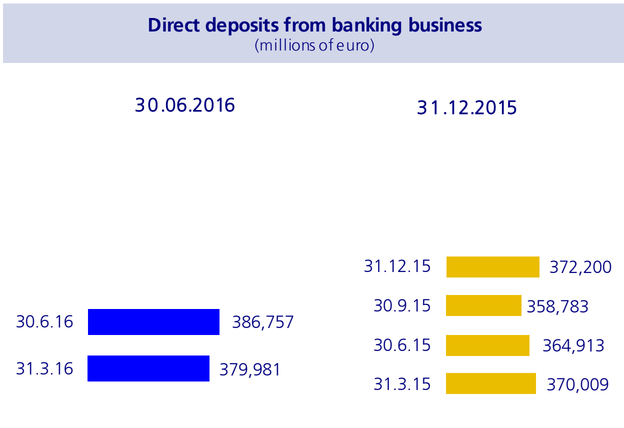
In relation to the above-mentioned dynamics, operating income in the first half of 2016 amounted to 8,628 million euro, down 5.6% on the figure in the first six months of 2015.
Operating costs were stable (-0.1% to 4,201 million euro) on the first half of the previous year. More specifically, personnel expenses increased slightly (+2.2%), whilst administrative expenses declined (-4.9%) as a result of savings achieved in property management, legal and professional fees and advertising and promotional costs. Conversely, amortisation and depreciation increased slightly (+1.4%), due to amortisation of intangible assets. The cost/income ratio was 48.7% against the 46% in the first half of 2015.
The operating margin amounted to 4,427 million euro, down 10.3% on the same period of 2015.



Adjustments and provisions for risks, as a whole, are in line with the first half of 2015. This performance is due to the substantial stability of requirements for net adjustments to loans (approximately +0.2%) - following both the actions implemented under the Business Plan to enhance credit monitoring and a gradual stabilisation of the general economic situation - in the presence of larger net impairment losses on other assets (+16 million euro), largely offset by lower net provisions for risks and charges (-9 million euro).
Income before tax from continuing operations thus amounted to 2,601 million euro, compared to the 3,224 million euro recorded in the same period of the previous year (-19% approximately).
After recognition of income tax for the period of 723 million euro (1,136 million in the first half of 2015), charges for integration and exit incentive of 51 million euro and the effects of purchase price allocation of 56 million euro, income on discontinued operations of 28 million euro as well as minority interests of 92 million euro, the Group's income statement for the first half-year closed, as already noted, with a net income of 1,707 million euro, compared to 2,004 million euro for the first six months of 2015.



As to balance sheet aggregates, loans to customers amounted to 360 billion euro (+3.7% compared to the end of 2015). The positive trend in commercial banking loans, up 3.1% overall, due to the positive performance of advances, loans and mortgages, and loans represented by securities (+9.5%) was in addition to the higher amount of short-term financial loans represented by outstanding repurchase agreements (+17.6%).

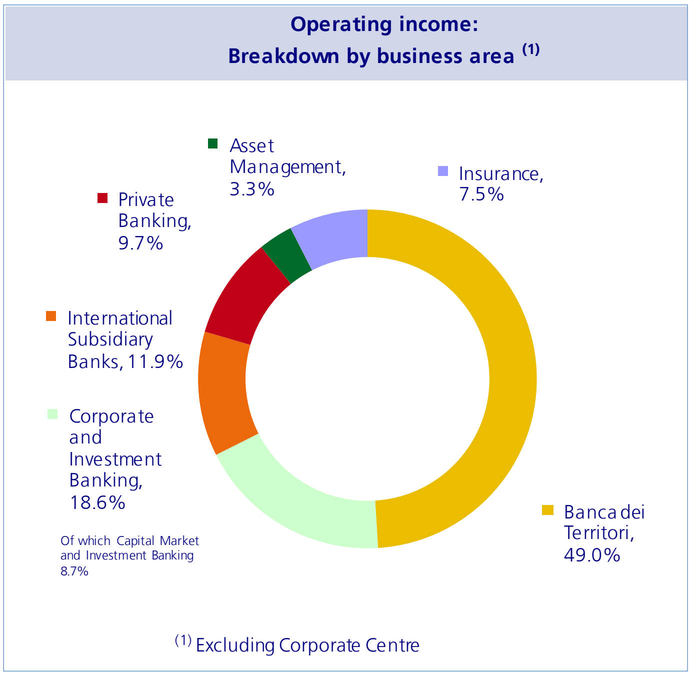


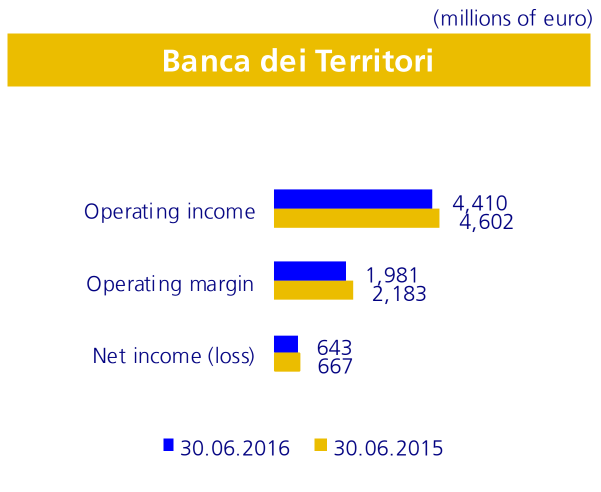
On the funding side, direct deposits from banking business neared 387 billion euro (+3.9% compared to the end of 2015). The moderate downturn in funding through bonds (-2.7%) and the fall in certificates of deposit (approximately -25%), was offset by the positive performance of current accounts and deposits (approximately +2%), subordinated liabilities (+8.4%) and other types of funding (+8.6%), in addition to a significant increase (approximately +52%) in repurchase agreements.
Direct deposits from insurance business, which include technical reserves, also increased (+5% to over 139 billion euro). The overall increase was attributable both to the technical reserves (approximately +2.6%), which represent the amount owed to customers who have bought traditional insurance policies, and to the higher value of financial liabilities of the insurance segment designated at fair value (approximately +9%), particularly of unit-linked products. The new business of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to 12.7 billion euro for the year.

Indirect customer deposits amounted, as at 30 June 2016, to 452 billion euro, down compared to the end of 2015 (-3.4%), affected by the decline in prices that reduced the value of securities under management and administration.
Specifically, assets under management were substantially in line with the figures for the end of 2015 (-1.1 billion euro, equal to 0.4%), in relation to the negative performance of the markets, which outweighed the net inflows achieved by the distribution networks. The decline affected portfolio management and mutual funds, whilst insurance products and pension products, albeit on small absolute values, grew.
Assets under administration decreased (-14.8 billion euro, or approximately 9%), due to the heightened market volatility, which had an impact on securities prices and resulted in a decline in operations by both institutional operators and retail customers.

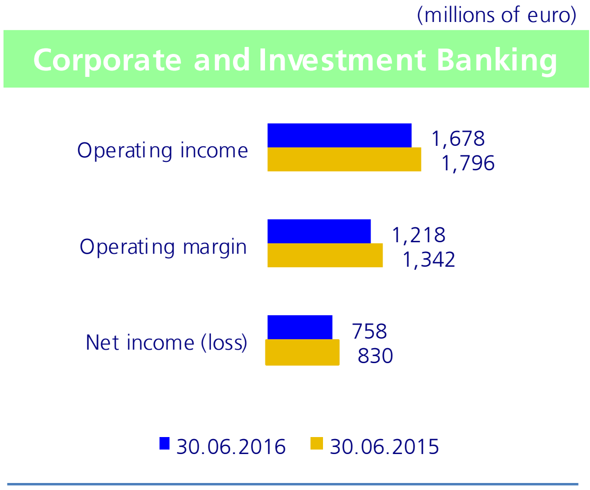
Results of the Business Units

The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre - which is responsible for guidance, coordination and control of the entire Group - as well as for the Capital Light Bank (CLB) business unit, the Treasury and ALM operations.
The share of operating income attributable to each business area confirms that commercial banking activities in Italy continue to account for the majority (approximately 49% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 19%), commercial banking activity abroad (approximately 12%), private banking activity (10%), insurance activity (approximately 7%) and asset management (approximately 3%).

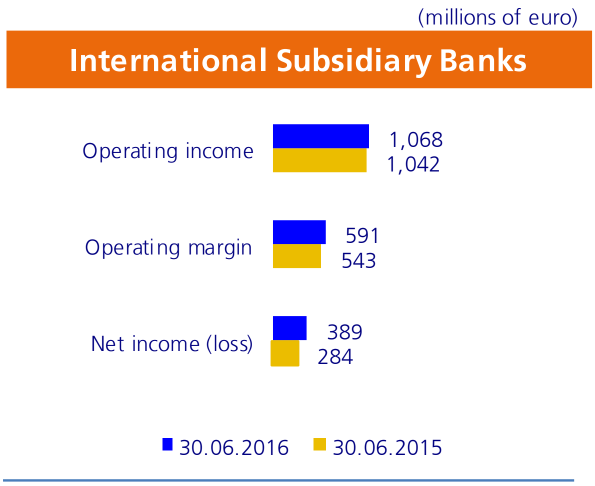




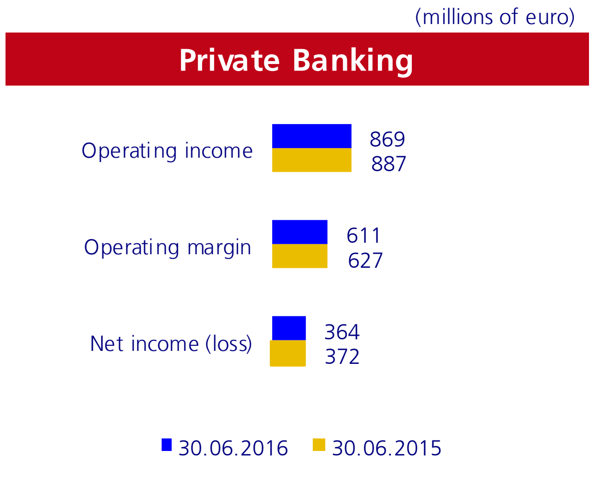
In the first half of 2016, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 4,410 million euro, down 4.2% compared to the same period of the previous year. In detail, the decreases in net interest income (-6.3%), penalised by interest rates at record lows, and net fee and commission income (-6.9%), specifically on asset management and administration products, and the substantial stability of profits on trading, was joined by the increase in other operating income (from 9 to 121 million euro), attributable to the profit on Visa Europe shares.
Operating costs recorded limited growth (+0.4% to 2,429 million euro). As a consequence of the performance outlined above, the operating margin was down (-9.3%). A similar downward trend was seen in income before tax from continuing operations (-10%) despite lower adjustments to loans (approximately -9%). After allocation to the Division of taxes amounting to 392 million euro (approximately -19%), integration costs of 10 million euro, economic effects of purchase price allocation of 4 million euro, plus the income on discontinued operations of 28 million euro referring to the forthcoming disposal of Setefi, net income stands at 643 million euro, down 3.6%.
The balance sheet figures of Banca dei Territori at the end of June 2016 showed loans to customers rising (+1.5% to 187,302 million euro), thanks to the increase in loans to the personal customer segment and households, especially medium-long term ones. Direct deposits from banking business showed a greater increase (+2.4% to 163,740 million euro), attributable to higher liquidity on deposits from the personal customer segment and business customers.



During the first half the Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – achieved lower operating income than in the same period of 2015 (-6.6% to 1,678 million euro). In detail, net interest income declined (-8.4%) primarily as a result of smaller margins and of a lower contribution from the Luxembourg subsidiary. Conversely, net fee and commission income showed an increase (approximately +17%) especially due to the investment banking and commercial banking sector. Profits on trading declined (approximately -20%), mainly relating to proprietary trading and capital market activity. Operating costs for the Division however recorded a limited growth (+1.3%). As a result of the above revenue and cost trends, the operating margin decreased (-9.2%), as did income before tax from continuing operations (-8.3%), though this benefited from a slight drop in adjustments and provisions. Net income came to 758 million euro, compared to 830 million in the same period of 2015 (-8.7%).
The Division's intermediated volumes increased compared to the end of December 2015 (+4.2%). Loans to customers grew significantly (+9.2% to 97,930 million euro) in relation to increased operations in repurchase agreements and collateral by Banca IMI, while direct deposits from banking business were stable (+0.2% to 110,152 million euro) thanks to the positive performance of securities issued, which fully offset the decline in the amounts due to customers.

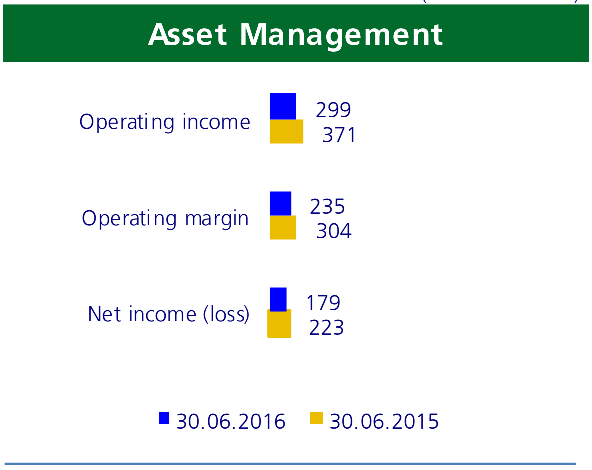


In the first half of 2016 operating income of the International Subsidiary Banks Division – which oversees the Group's commercial operations on international markets through subsidiary and associated banks primarily involved in retail banking operations – came to 1,068 million euro, up (+2.5%) compared to the first half of the previous year, as a result of declining net fee and commission income (-2.3% and -6.3% respectively) and profits on trading which grew significantly (approximately +28%). The revenue trends described and the decline in operating costs (-4.4%) led to an 8.8% increase in operating margin. The income before tax from continuing operations showed a higher increase (+34% approximately), favored by the reduced requirement for adjustments.
The Division closed the first half of 2016 with net income of 389 million euro (+37%).
The Division's intermediated volumes grew compared to the end of December 2015 (+1.3%) owing to the positive performance by both loans to customers (+1.5%) and direct deposits from banking business (+1.1%), in the securities issued component.



The Private Banking Division serves the top customer segment (Private and High Net Worth Individuals) by offering excellent products and services. The Division coordinates the operations of Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria, Intesa Sanpaolo Private Bank (Suisse) and Fideuram Asset Management Ireland.
In the first half of 2016, the Division generated income before tax from continuing operations of 590 million euro, down (-4.1%) compared with the corresponding period in 2015 mainly as a result of lower operating income (-18 million euro) and higher provisions (+16 million euro). The performance of operating income can be attributed, as well as to growth in net fee and commission income, which was fractionally down (-0.4%), to the reduction in the interest margin (approximately -9%) and the lower income on trading activities (-54%).
Operating costs were down due to the effective reduction in expenses (-0.8%).
Net income for the half-year came to 364 million euro (-2.2%).
As at 30 June 2016 assets under administration amounted to 188 billion euro (-0.7 billion euro compared to the end of 2015). The declining trend can be attributed to unfavourable market performance, which absorbed the positive trend of net inflows.

(millions of euro)

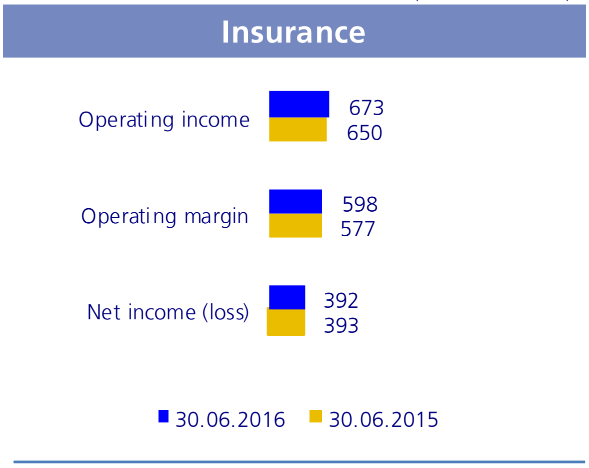


The Asset Management Division is tasked with developing asset management solutions aimed at the Group's customers, non-Group distribution networks and institutional customers, through the subsidiary Eurizon Capital.

Operating income for the first half of 2016, amounting to 299 million euro, decreased by approximately 19% compared to the same period of the previous year, as a result of the performance of net fee and commission income (approximately -21%). Operating costs fell on the same period of the previous year (-4.5%) due to the streamlining of personnel expenses. Given the above revenue and cost trends, the operating margin declined by 23%. The Division closed the first half of 2016 with net income of 179 million euro (-19.7%).

Total assets managed by Eurizon Capital at the end of June 2016 came to 230.3 billion euro, up (+1.5% equal to +3.4 billion euro) since the beginning of the year, as a result of net inflows which fully absorbed the negative financial market performance.

(millions of euro)



The Insurance Division oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers.

In the first half of 2016 the operating margin increased (+3.6% to 598 million euro) on the same period of the previous year, attributable to higher operating income (+3.5%) against a slight increase in costs (+2.7%). In particular, income from insurance business increased (+3.7%) due to the improvement in the technical margin and the positive contribution of the financial margin. Income before tax from continuing operations also increased (+2.1%), while net income, which was 392 million euro is substantially in line (-0.3%) with that of the first half of 2015.

Direct deposits from insurance business increased (+5% to 139,536 million euro) compared to the end of 2015, mainly as a result of the development of technical reserves and financial liabilities in the insurance segment designated at fair value.

Highlights

Highlights for first half-year 2016

The Single Resolution Mechanism Regulation (2014/806/EU) came into force on 1 January 2016. This regulation will manage banking crises of member states in the Eurozone at centralised level, by establishing and managing the Single Resolution Fund (SRF). Starting from that date, the National Funds of all member states of the monetary union, established in 2015 pursuant to the BRRD, flowed into the Single Resolution Fund. This Fund is managed at centralised level by the new Single Resolution Board (SRB), headquartered in Brussels.
Starting from 1 January 2016, and by 31 December 2023 (time frame of 8 years), the Single Resolution Fund (SRF) must reach a target level of resources of at least 1% of the amount of protected deposits at all authorised entities of the Banking Union. The target level of the SRF is estimated at 55 billion euro.
Therefore, banks in the member states of the Banking Union, which paid their contributions to the National Resolution Fund in 2015, from 2016 (up to 2023) shall contribute to the Single Resolution Fund. Banks not belonging to the Banking Union will continue to pay contributions to the National Resolution Funds of their respective home countries. The rules for calculating the contributions due are set out in delegated Commission Regulation no. 63 of 2015, supplemented by Council Execution Regulation no. 81 of 2015 for the period 2016-2023.
As regards the contribution of the Intesa Sanpaolo Group for 2016, the final quantification by the resolution Authority was not received in time for the closure of the Report on the first quarter. So it became necessary to make the best possible estimate, by entering charges relating to the Resolution Fund of 136 million euro. Following receipt of the communications with the exact quantification of the amounts, during the second quarter a further 12 million euro approximately was entered in the accounts. The overall charge recorded in the first half of 2016, corresponding to the share paid in cash to cover the whole year, was therefore equal to about 148 million euro.

In order to overcome the negative stance taken by the European Commission with regard to the use of compulsory contributions in support measures in favour of banks in crisis, the creation of a Voluntary Scheme within the National Interbank Deposit Guarantee Fund (FITD) was launched at the end of 2015, as an additional tool to the Compulsory Scheme, not subject to the constraints of EU legislation and the European Commission.
At first this Scheme was intended to provide a solution to the case involving Banca Tercas, providing payment to Tercas of the sum that the Commission imposed on the Bank to return to the banking system (an operation without additional charges for the member banks).
At a later stage the reinstatement of a provision of the Voluntary Fund was envisaged for a maximum amount of 300 million euro to use to provide support in favour of small banks in difficulty and subject to extraordinary administration proceedings, if there are concrete prospects of a turnaround and in order to avoid higher charges for the banking system as a result of winding up or resolution orders. Lastly the extraordinary meeting of the FITD of 17 June 2016 approved further amendments to the articles aimed at extending the conditions for intervention, simplifying decision-making processes and increasing the financial allocation from 300 to 700 million euro.
The resources are not subject to immediate payment by the member banks, which simply assume the commitment to pay them when called upon to do so for specific interventions, up to the established maximum amount.
Decisions about individual interventions approved by the Fund are binding on the individual member banks.
The Voluntary Scheme is governed by a special Title (Title II) of the Articles of Association of the National Interbank Deposit Guarantee Fund (Compulsory Scheme) and it was established with the participation of almost all the member banks representing 99.6% of protected deposits (compared with a minimum provided for by the Articles of Association of 95%).
All the banks in the Intesa Sanpaolo Group have joined the voluntary scheme and consequently have registered a commitment for their own share of the approved 700 million euro (approximately 150 million euro).

On 26 February the Extraordinary Shareholders' Meeting of Intesa Sanpaolo approved the new Articles of Association which relate to the adoption of the one-tier corporate governance system based on a Board of Directors composed of a minimum of 15 to a maximum of 19 members, five of whom are part of the Management Control Committee.
The dual corporate governance model previously adopted by Intesa Sanpaolo has confirmed its concrete operation and consistency with respect to the Bank's overall structure, demonstrating its capacity to meet the efficiency and effectiveness needs of governance and of the control system of a structured and complex Group. Nine years on from its adoption, however, it was considered appropriate to evaluate a change, especially in light of the results of the last self-assessment process carried out by the two Corporate Bodies which, while showing the full and extensive adequacy of each Board with regard to all the aspects under examination, identified some areas for improvement. Aside from the external factors, other factors suggested a wide-ranging assessment: first and foremost, the amendments introduced in the regulatory framework as well as the ongoing developments at Supervision level (with the transition of prudential supervision to the ECB, with a view to the Single Supervisory Mechanism) and the shareholder base of Intesa Sanpaolo (with the strong growth of foreign investors). The relevant assessments were entrusted to a Commission set up ad hoc within the Supervisory Board - whose composition reflected the (legal and business) expertise and the (academic and professional) experiences that appeared to be best suited to meet the relevant requirements - with the task of analysing the benefits and advantages underlying the different governance models, in order to identify possible areas for improvement in Intesa Sanpaolo's dual corporate governance system or, alternatively, possible reasons that could have led to its replacement.
Having taken into account all the factors and considerations outlined above, the Commission identified the one-tier system - characterised by the presence of a board of directors and a management control committee established within it - as the most suitable model to ensure actual management efficiency and control effectiveness at Intesa Sanpaolo. Thus, in the Commission's opinion, the centralisation within a single body of strategic supervision and management functions - together with a balanced system of powers and fair debate within the board - is conducive to pursue the dual objective of greater efficiency in the performance of the governance function and of safeguarding, in line with the dual system, the immediacy, incisiveness and effectiveness of the control function, centralised within the Management Control Committee.

The Ordinary Shareholders' Meeting on 27 April then decided to set the number of members of the Board of Directors at 19 for financial years 2016/2017/2018 and subsequently appointed the members of the Board of Directors and the Management Control Committee for said years, on the basis of slates of candidates submitted by shareholders. The 19 members appointed are listed in the "Corporate Offices" Section of this reporting package. The Board of Directors' meeting of 28 April then appointed Carlo Messina Managing Director and CEO, granting him the powers necessary and appropriate to ensure consistent management of the Company.

On 15 April 2016 the Bank's corporate bodies approved - within their respective remits - the Bank's participation in an investment fund created with the dual purpose of subscribing to capital increases of banks with inadequate capital endowment and identifying a structural solution to the significant amount of bad loans in the Italian banking system, deriving from the serious recession which has hit the country's economy, as well as the lengthy procedures for the recovery of such loans, which have led NPL investors to offer significantly discounted purchasing prices.
Under this operation, Intesa Sanpaolo has participated in the creation of the alternative investment fund Atlante, managed by Quaestio Capital Management, an autonomous asset management company (SGR), through the contribution of a maximum of 800 million - 1 billion euro to Atlante, in respect of a total capital endowment of 4 billion - 6 billion euro to be supplied by banks and private-sector investors.
At least 30% of Atlante's funds, plus amounts not used to support capital actions at banks to be identified by 30 June 2017, has been reserved for the purchase of junior tranches issued by vehicles for the securitisation of bad loans conferred by numerous banks, including Intesa Sanpaolo, as well as other related assets.
The bad loans portfolio which will be included in this operation may benefit from the value creation deriving from a "best-in-class" Servicer able to exploit the economies of scale and scope of a multi-bank portfolio, as well as applying logics and competencies in the style of a Real Estate Owned Company (REOCO) in the proactive management of real estate collateral.
The Atlante Fund initiative was followed by the issuance by the Government of measures aimed at reducing the recovery times of bad loans.
After obtaining the necessary authorisations, on 29 April Quaestio Capital asset management company launched the Fund, with participation amounting to a total of 4.3 billion euro. On the same date, the management company called the initial economic resources needed to participate in the share capital increase of Banca Popolare di Vicenza. The total amounts called up came to 1.7 billion euro, and Intesa Sanpaolo paid in approximately 334 million euro.
The capital increase of Banca Popolare di Vicenza, amounting in total to 1.5 billion euro, was underwritten in full by the Atlante fund which thus acquired a stake of 99.33% in the bank's share capital.
Subsequently, on 14 June 2016, Quaestio SGR asked the participants for a second payment amounting to 855 million euro, 170 of which to be paid by Intesa Sanpaolo. The SGR specified that the amount called was fully used in the investment transaction consisting in the underwriting by the fund of newly issued shares of Veneto Banca. Moreover, the residual amount from the first payment and not used for the previous investment transaction involving newly issued shares of Banca Popolare di Vicenza, was also allocated to this second investment transaction. The capital increase of Veneto Banca, amounting in total to 1 billion euro, was underwritten for approximately 989 million euro by the Atlante fund, which thus acquired a stake of 97.64% in the bank's capital.
With the first and second call, in total the fund requested approximately 2.5 billion euro, equal to 59.6% of the underwriting commitments made. Intesa Sanpaolo contributed for a total of approximately 504 million euro.

Law Decree 59 of 3 May 2016, converted into Law 119 of 30 June 2016, introduced special rules on deferred tax assets (DTAs), aimed at avoiding the classification as "State aid" of the national legislation which lays down the automatic convertibility into tax credits of "qualified" DTAs (relating to adjustments to loans or goodwill and other intangible assets) even in the presence of statutory and/or tax losses.
In particular, it was established with art. 11 of said decree that the convertibility into tax credits of the aforementioned DTAs continues to be applied automatically, upon the occurrence of the conditions envisaged by law, only with regard to "qualified" DTAs covered by already paid taxes, whilst for "qualified" DTAs in excess of the taxes already paid the convertibility into tax credits can only be maintained on irrevocable choice provided an annual fee is paid. The fee amounts to 1.5% of any positive difference between: (a) the sum of the "qualified" DTAs recorded since 2008, including those already converted into tax credits and (b) the sum of the taxes paid since 2008. In the event of participation in a "fiscal consolidation procedure", the DTAs and taxes should be calculated at fiscally consolidated group level. This fee, which is deductible for the purposes of IRES and IRAP, must be calculated (and, if due, paid) with respect to each year from 2015 to 2029 and, for 2015, it is payable by 31 July 2016.
In the ISP Group financial statements as at 31 December 2015, the "qualified" DTAs entered by the Italian companies were entirely covered by taxes paid. In fact, in the period 2008-2015, the taxes paid by the Group were more than the said DTA's. Therefore, the convertibility of these DTA's is guaranteed without the Group being liable for the payment of any fees.

At the beginning of May, Intesa Sanpaolo signed a sale-and-purchase agreement in respect of the sale of the total share capital of its subsidiaries Setefi and Intesa Sanpaolo Card to a wholly-owned subsidiary of Mercury UK Holdco Limited for a consideration of 1,035 million euro in cash. Mercury, which already owns Istituto Centrale delle Banche Popolari Italiane (ICBPI), is controlled by a consortium composed of Advent, Bain Capital and Clessidra.
Setefi and Intesa Sanpaolo Card carry out processing activities relating to payment instruments and operate, respectively, in Italy and in the other countries where the Group has a presence. The agreement provides for a ten-year service contract, the commitment by Intesa Sanpaolo to use the processing services provided by Setefi and Intesa Sanpaolo Card and specific undertakings regarding the maintenance of a high service quality. The transaction will enable the Intesa Sanpaolo Group:

- to focus on the core activities of issuing and acquiring relating to payment instruments, following the recent partial demerger of Setefi in favour of its Parent Company, with the aim of maximising effectiveness of commercial activities and optimising relationships with Group customers;
- to adequately enhance, by way of this disposal, the non-core processing activities, also taking into account that growing investment needs and economies of scale are necessary in order to operate efficiently in this sector;
- to further strengthen the technological platform by entering into a partnership with players of proven experience in the payment sector in Italy and Europe.

The finalisation of the transaction is expected to take place by the end of the year and is subject only to the customary regulatory authorisations being received. It will generate a net capital gain of around 895 million euro for the Intesa Sanpaolo Group's consolidated income statement in 2016.
As required by IFRS 5, starting with the Half-Yearly Report as at 30 June 2016, and until the transaction is completed, the accounting balances attributable to the two discontinued operations are reclassified under the specific captions relating to discontinued operations, as better illustrated in the chapter on Accounting Policies.

Also in the month of May, through Accedo - a consumer credit company and wholly-owned subsidiary, dedicated to consumer credit distribution over external channels to the Group - Intesa Sanpaolo sold the performing loan portfolios, without recourse and en-bloc, related to the businesses dealing in assignment of one-fifth of salary and pension (approximately 1.6 billion euro) and consumer credit (one billion approximately). The two portfolios were assigned to two specially incorporated special purpose vehicles (Towers CQ Srl and Towers Consumer Srl), independent of the Intesa Sanpaolo Group and managed by the third party servicer Zenith Service. The transferees financed the payment of the consideration by issuing senior, mezzanine and junior class securities only partly underwritten by the Intesa Sanpaolo Group, through Accedo, which has maintained a net economic interest of 5%, in compliance with the rules for recognition of securitisation transactions for prudential purposes, Banca IMI and Duomo (a vehicle company controlled by the Intesa Sanpaolo Group). Christofferson Robb & Company, an American company operating in the acquisition of loan portfolios, has underwritten 95% of the junior tranche. Overall, the Intesa Sanpaolo Group has underwritten 34% of the securities issued by the transferee vehicle of the one-fifth of salary loans portfolio and 20% of those issued by the vehicle that acquired the consumer credit portfolio.
The two transactions, that are part of the disposals of non-core assets indicated in the Business Plan 2014-2017, have had a basically null effect on the consolidated income statement for the first half-year.

On 21 June, the Intesa Sanpaolo Group sold its stake of 15 ordinary shares of VISA Europe, the association between banks and financial institutions belonging to the VISA circuit in Europe, to VISA Inc. The stake represents 0.49% of VISA Europe’s share capital. The sale generated a net profit of approximately 150 million euro for the Intesa Sanpaolo Group’s consolidated income statement in the second quarter of 2016.

During the first half of 2016, the disposal continued of the stake in Bank of Italy’s capital which began in 2015. Indeed, an additional 1.44% of the stake was sold, for a total consideration of approximately 108 million euro. In this case too, the sale was made at nominal value, which coincides with the carrying value (25,000 euro per share). Overall, therefore, 7.19% of the Bank of Italy’s capital was sold for a price of 539 million euro.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, the exercise conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.
The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information in the context of the prudential revision process in 2016. The results thus allowed the competent authorities to assess banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.
Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) for Intesa Sanpaolo resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% in the baseline scenario and 10.2% in the adverse scenario, compared to the starting-point figure of 13% recorded as at 31 December 2015, and included a 50 basis-point reduction - in both scenarios - for the transition from the calculation criteria applicable in 2015 to those in force for 2018.

The 2014-2017 Business Plan

With the Business Plan approved in March 2014, the Intesa Sanpaolo Group has introduced the 2014-2017 objective to pursue a new growth phase based on an innovative strategy which, focusing on the individuals and adopting a clear and effective business model, aims at increasing profitability in a sustainable manner, optimising capital and liquidity.
The new strategy hinges on a number of priorities that are now part of the inheritance of Intesa Sanpaolo, which aims to become:
- a real-economy bank, which supports households and businesses and, leveraging a strong balance sheet and leadership, matches healthy credit demand and manages the financial wealth of customers with care;
- a Bank with sustainable profitability, in which operational performance, productivity, risk profile, liquidity and solidity/leverage are carefully balanced;
- a leader in retail and corporate banking in Italy and a few other key countries;
- a European leader Bank in a number of high growth/high value businesses (Private banking, Asset management, Insurance);
- a Bank structured according to a divisional model and engaged in strengthening and further simplifying the current business model of Banca dei Territori, taking into account the evolution in customers’ demands;
- an international Bank that acts as "Local bank abroad" for Italian companies;
- a simple yet innovative Bank, acting with a truly multi-channel model.

The Plan envisages measures in the following areas:
- “New Growth Bank”, to develop revenues with innovative growth engines capable of identifying new market opportunities;
- “Core Growth Bank”, to capture untapped revenue potential of existing business, in terms of revenue development, reduction in operating costs, and credit and risk governance;
- “Capital-Light Bank”, to optimise the use of capital and liquidity, de-leveraging the bank’s "non-core" assets;
- People and Investments as key enablers to maximise the contribution of each of the three “Banks” to the Group’s result.

A number of initiatives were implemented from both the organisational standpoint as well as with regard to product innovation, improvement of customer service and development of Intesa Sanpaolo's human capital.

a) New Growth Bank

As part of the "New Growth Bank" initiative, the Banca 5® project continues, founded on an ad hoc offer and on a dedicated commercial value chain composed of approximately 3,600 people to revamp approximately five million retail customers marked by limited relations with the Bank. As a result of the commitment to them, these customers now have continuously increasing income. In addition to the development of new targeted products and the launch of commercial initiatives designed for their specific needs, particular attention is focused on training managers, which is fundamental to continuously improve the service offered. The constant attention to product and process innovation focusses on the acquisition of new customers and promoting loyalty in existing ones by placing competition on the level of content and services.

Numerous activities were performed to develop the multi-channel approach, which will enable customers to purchase products and services from all channels through consistent, integrated paths. In the second quarter, development continued of the Online Branch, the new home banking site (first two clones released) and the new app. Dematerialisation was also completed of all the sales processes in Retail and Personal branches (D-Day 6 June) and the gradual release continued of the network integrated telephony model. Lastly, the "Remote Manager" pilot project was launched for some customer clusters.

With regard to the "new jobs" envisaged in the 2014-17 Business Plan, development continued of Intesa Sanpaolo Casa, a company that operates in residential real estate brokerage between individuals (including non-customers) and between individuals and the Group's construction company customers. The new company offers customers an advanced range of high-value services based on the soundness and professionalism of Intesa Sanpaolo. For example, customers registered in the reserved section of the Intesa Sanpaolo Casa website can use the new interior design and renovation services and request quotes from professionals participating in the platforms of the Bank's partners Cocontest and Habitissimo. In June 2016, 23 branches were operational, located in Milano, Roma, Torino, Monza, Brescia, Bologna, Firenze, Napoli and Padova. Since operations began, approximately 500 sales mandates were obtained and 130 homes were sold. Intesa Sanpaolo Casa also provides an opportunity for professional growth for Group employees. The new real estate agencies include agents hired from outside as well as employees of Intesa Sanpaolo, who decided to accept a new challenge by using their experience and professionalism to develop the new business. Intesa Sanpaolo Casa is an important opportunity for the entire Group, owing to the possibility of developing synergies with the banking business, in line with the principle of separating the real estate business from banking.

The Group's e-commerce site, "Mercato Metropolitano" (formerly "Created in Italia") already has over 27,000 registered users and an online catalogue of approximately 800 brands. Mercato Metropolitano is a showcase of high-quality companies that contribute to enhance the value of Italian products. Businesses that consider the landscape and traditions of their territory as distinctive elements in their creations and which, thanks to Intesa Sanpaolo, can promote their products on the portal, thus benefiting from extensive visibility. From May to December the brand and about 80 Mercato Metropolitano products will be present on the Sky television programme "Kitchen Sound".

February saw the launch of "Destination Italia", an ambitious project for Italian tourism that aims at promoting and selling the "Italy product" abroad through a new start-up. The founding members of the new Italian NewCo are the lastminute.com group (the fifth most important online tour operator in the world by volume of transactions), Intesa Sanpaolo and the Chief Executive Officer of NewCo itself, Marco Ficarra. Destination Italia will not be an Online Travel Agency (OLTA), but intends to position itself as an authentic leading "hub" of incoming tourism, that will be achieved not only by aggregating the Italian tourist offer (today extremely fragmented and often in an inferior position with respect to foreign operators) but also by promoting and selling the "Italy product" on foreign markets, both directly to passengers and indirectly through foreign operators such as tour operators, agencies, OLTAs and system partners. According to the roadmap, sales and marketing activities will start during the year.

The SME Finance Hub is the Group's specialised credit and business advisory service unit. In the second quarter, the operations in the pipeline continued for the transfer to the Parent Company and to Intesa Sanpaolo Group Services of the Governance activities of Mediocredito, a transaction which will allow the company to focus on business development. In the commercial area, the processes continued to improve the commercial offering and customer service, strengthening the specialist credit monitoring (leasing, medium/long-term loans, structured finance and subsidised finance). The pilot scheme on the "Confirming" product was launched.

The project "Insieme per la Crescita" (Together for Growth), consisting of management change measures and new methods of securing employee involvement, continued on the entire Banca dei Territori Network. The idea of the project is to target commercial behaviour with the aim of improving the network's performance through a stronger focus on relationships, thereby increasing customer and employee satisfaction so as to generate pervasive, permanent change. The second quarter was particularly full of initiatives to support the programme and its dissemination, targeted both at colleagues and customers of the Group. These included the "Vividigitale" ("Livedigital") events, for customer engagement on digitalization, the extension of the "Annual check-up" pilot scheme for the Personal Area and the realisation of numerous focus groups and meetings, on the project's issues, with the network staff. Innovative tools for internal communication and monitoring of the initiative were also provided.

The implementation of the new strategy and commercial initiatives in the field of Global Transaction Banking continued. A single product company at Group level will support the growth of business, guaranteeing product innovation, excellence in commercial support and pro-active development of partnerships. During the first half-year, activities were focused on the organisational model, on the development of the products catalogue and on strengthening commercial activity with the aim of raising the Group's ambition level to that of a player able to compete at international level. A number of initiatives related to the project aimed at extending Banca IMI's product range. The most important include the move to the operational phase of the partnership with the Private Banking Division, as part of the High Net Worth Individual (HNWI) project, which offers that customer segment a complete range of products and services usually reserved for professional investors. During the last quarter of the year, this collaboration was strengthened through the secondment of Banca IMI employees within the Private Banking Division, which will make it possible to improve information exchange and to define a more targeted commercial offer. Activity on the multi-originator platform continued for the disposal of NPLs and Settlement including to larger banks. The physical Gas Commodity Trading activities continued with the closing of several transactions. On the international front, further progress was made on the development of the International Network, with a view to strengthening the Group's competitive edge in terms of offering and geographical coverage. On this latter front, in particular: business development projects continued in Turkey and Brazil; in the United Arab Emirates, after obtaining the banking licence from the local authorities, the new Abu Dhabi branch was established from an organisational point of view (replacing the Representative Office closed at the same time); in Indonesia, the Representative Office in Jakarta was opened; the banking licence was obtained from the local authorities in Qatar and the new Doha branch was established from an organisational point of view. The reinforcement of the ISP Bank Luxembourg unit (former SEB) continued, aimed at expanding the effectiveness of commercial coverage on customers in the Benelux market.

The size of the new Fideuram-Intesa Sanpaolo Private Banking Group on the market makes it a leader in Italy and places it at a top position in private banking at European level, allowing it to develop domestic and international markets in the future. In the first half-year branches dedicated to High Net Worth Individuals were opened in Bologna, Roma and Padova. New IT tools and functions for advanced consulting were released, to allow our professionals to assist customers with an ever more efficient and timely service. The activities regarding the revitalisation of ISPB Suisse and the finalisation of the London Branch continued.
The Asset Management Division took steps in several areas during the first half of the year. Support for the Banca dei Territori, Private Banking and Insurance Divisions continued with the development of products, informational materials and training and support activities differentiated based on the specific needs of the individual structures. The strengthening of our commercial action on extra-captive and institutional customers continued, with the acquisition of new customers in the area of advisors and banking networks. The commercial focus on the insurance industry also allowed the acquisition of new mandates. Finally, work on developing international business was no less intense. Specifically, as regards the Hong Kong subsidiary, pending the issue by the local Supervisory Authorities of the licences authorising advisory and investment activities, implementation continued of the operating model defined for the company's start-up period.
With regard to the establishment of a Wealth Management Company in the People's Republic of China (main branch in Qingdao), the completion of the authorisation process with the Bank of Italy is expected. The company's object will be to provide financial advice and distribute and promote wealth management products. Business activities continued for the opening of foreign branches by the subsidiary Eurizon Capital S.A. With regard to the British market, on 4 July a partnership was formed through the company Eurizon S L J Capital Ltd (65% owned by Eurizon Capital SGR). The development of specific products is currently ongoing.
During the first half-year, the Insurance Division pursued the rebalancing of the commercial offering in favour of products with greater capital efficiency (Class III and multi-class products), suspending the marketing and sale of traditional Class I products. The action to launch the Information Driven Insurer project continued, aimed at increasing efficiency of use of the information assets of the Division's data. The constant development of insurance products continued, both in the Non-Life and in the Life segments.

b) Core Growth Bank
With regard to the "Core Growth Bank" initiatives, Banca dei Territori continued three projects aimed at optimising the service model for Retail customers ("Full Potential"), Personal customers ("Investment House") and Business customers ("Business-Entrepreneur"). In detail, as regards the "Full Potential" project, the rationalisation measures for the network and development of the "Counter Service Development" initiative (introduction of branches with counter closures at 1 p.m. and branches fully dedicated to financial advisory services) continued. The transformation of the branches according to the new layout also continued.
As regards "Investment House", in the first half activities specifically focused on developing the product range, the "Financial Advisory" project, the Out-of-Branch offering (and, more generally, the multi-channel offering) and on implementing solutions for the dematerialisation of contracts.
Regarding the "Business-Entrepreneur" project, in addition to continuously fine-tuning the service model and commercial method, the initiative to increase awareness by and transfer knowledge to customers on the digitalisation of business and on internationalisation went on. In the first half-year, around 200 visits to customers were organised to give advice on internationalisation and 23 events were also held on the same subject. In addition, B2B events were promoted to facilitate meetings and the development of business opportunities between our customers and foreign counterparties. The "Sviluppo Filiere" programme has already seen approximately 200 (production) chains launched for commercial development, with a total of approximately 4,700 suppliers involved. These activities confirm Intesa Sanpaolo increasingly as a key partner in defining the strategic decisions of its customer companies.
Development work continued on the "Commercial Excellence" project, aimed at increasing the level of service provided to high added-value customers, also through different organisation of the work and leveraging of leads generated by the multi-channel platform and the use of technologies capable of increasing the effectiveness and efficiency of commercial processes. During the first half-year, the roll-out of the new mortgage process was started and some applications have been updated. Furthermore, the technological upgrade of equipment continued for customer transactions in self-service mode.
The service model improvement projects for the various customer segments are supported by the new organisational model of the Banca dei Territori Division: in fact, in each of the seven existing regional governance centres, three specialised "commercial areas" have been identified – Retail, Personal and Business – to maximise the specific skills of personnel.
The Corporate and Investment Banking Division moved ahead at full pace with work on developing an asset light model aimed at making its loan assets marketable. The programme aimed at increasing business with international customers continued. Among the various activities, implementation continued of the service model by Industry and several commercial operations supporting synergies with the ISP Bank Luxembourg project were intensified. In April the registration of Intesa Sanpaolo as a swap-dealer (Dodd-Frank) was finalised for full Capital Markets trading in the USA. In the area of selective growth involving Italian Corporate Customers, dedicated commercial campaigns continued. With regard to Financial Institutions customers, in addition to the work on commercial development, those aimed at achievement of the factors that will enable the full realisation of the segment's potential continued.
The International Subsidiary Banks Division is implementing a major project to revise the operational model which, by redefining the functional relationships between Governance structures and local banks and unifying the commercial and marketing organisation, will enable better coordination and greater efficiency of the commercial initiatives. Implementation of the new organisational model of the International Subsidiary Banks is in the process of finalisation: in addition to the continuation of the already ongoing activities, in the second half-year the standardisation of the banks' Credit and Risk areas was launched according to the Parent company's target. The Nexus project continued (aimed at the simplification of Governance and optimisation of the synergies between PBZ and ISP BiH) with the implementation of the actions planned for the second quarter (Retail, Corporate-SME, Risk Management, Operations, IT, Reporting). The DBE Loans Programme continues in accordance with the plans laid down by the ECB. Activities continued on the Big Financial Data and Radar projects in line with the work schedules. With reference to the Cooperation project, which provides for the centralisation of the data centres of the international subsidiary banks at the Parma branch, the implementation activities continued in VUB, the implementation activities were begun in ISP Albania and ISP Romania and feasibility studies were launched at Alex bank and CIB. The implementation of the Small Business model continues according to the plans and guidelines defined during the feasibility study The multi-channel platform was further developed in PBZ, CIB and Alex Bank. It should also be noted the progress of the Wealth Management & MiFID II project, aimed at defining and implementing the target model for the Mass/Affluent/Private segments in line with the MiFID II regulations. Finally, the target CRM solution for International Subsidiary Banks was extended further.

The activities regarding pro-active credit management continue. The ongoing monitoring of customer positions, prompt identification of situations at risk and immediate activation of measures to keep or reposition loans in performing status contributed to stemming the deterioration of credit quality. During the first half, also owing to these loan management programmes, approximately 10,600 businesses returned their loans to performing status from non-performing status (around 40,000 overall since 2014), confirming Intesa Sanpaolo' intention to be a bank that supports the real economy and focuses on sustainable growth.
The Business Plan envisages an important simplification in the corporate breakdown of Banca dei Territori. The objective is to achieve a gradual and significant reduction in the number of legal entities, from 17 banks at the end of 2013 to 6 banks.
The first corporate transaction involved the merger of Banca di Credito Sardo and CR Venezia, 100%-owned, into Intesa Sanpaolo (effective for legal purposes from 10 November 2014). The mergers by incorporation of Banca di Trento e Bolzano and Banca Monte Parma into Intesa Sanpaolo took effect on 20 July 2015. The merger by incorporation of Cassa di Risparmio di Rieti, Cassa di Risparmio di Civitavecchia and Cassa di Risparmio della provincia di Viterbo into Intesa Sanpaolo concluded with effect from 23 November 2015. The merger by incorporation of Banca dell'Adriatico into Intesa Sanpaolo was completed (with the transaction taking legal effect on 16 May 2016). On 17 June 2016 the project for the merger by incorporation of Casse di Risparmio dell'Umbria S.p.A. in Intesa Sanpaolo S.p.A. was deposited with the Register of Companies of Torino. Finally, the rationalisation of the local presence resulted in the closure of 93 branches in the first half of the year (for a total of 658 closures since 2014).

c) Capital Light Bank
In addition to growth in revenues, reduction in operating costs and optimisation of credit and risk management, the Business Plan is also based on a clear strategy for optimisation of capital and liquidity, as well as deleveraging of the Group's non-core assets, implemented through the Capital Light Bank.
In the first half of the year, organisational rationalisation in Ukraine resulted in a reduction of the workforce by approximately 300, following the closure of 40 branches. In Hungary activities were launched for the transfer of packets of NPLs. Intesa Sanpaolo REOCO, the Group company whose mission is to extract the most value from repossessed properties and to safeguard the bank's assets, continued to carry out its activity, with a total benefit for the Group in the first half of the year of 7.5 million euro from 70 properties. The sale without recourse of 2.6 billion euro of performing consumer loans was carried out through the subsidiary Accedo. Lastly, activities continued to make Provis fully operational.

d) People and investments as key enablers
At the end of 2013, following development of technology and customer trends, the Bank had an excess capacity of about 4,500 people, equal to about 5% of the total employees of the Group. However, there has been a strong desire to involve all colleagues in the new Business Plan right from the beginning, fostering the sense of belonging to the Bank.
In line with these values, as opposed to the measures of its main competitors, the Bank decided to maintain the current employment levels, preserving know-how and the professional expertise within the company. To this end, a major project for professional re-allocation has been initiated in order to support development of the new business initiatives under the Plan. In June 2016, almost all of the staff initially identified were already re-allocated to priority initiatives (4,475 resources).
The Chief Innovation Officer Governance Area has continued to promote and expedite innovation within the Group.
Concerning the Group's main projects, more fully described below, in a world where data are becoming increasingly important and their correct use provides a growing competitive advantage, the Intesa Sanpaolo Group is implementing the "Big Financial Data" programme for integrated management of Bank data. The project will achieve three important goals: i) satisfying the new regulatory requirements; ii) supporting the business; and iii) supporting the Bank in its transformation from a "Data Company" to an "Information Company".
Lastly, the "Digital Factory" project is active, which aims at upgrading the Group's operating model, accelerating innovation and digitalising processes. As part of the Digital Factory project, operating processes are redesigned starting from customers' needs, exploiting the digital potential made possible by new technologies and leveraging working methods that involve extensive cooperation between group structures, involving high value people. Eight key processes of the Bank are currently under review and four of these have already reached the industrialisation phase.

Ongoing projects

Also during the first half of the year, in coordination with the structures of Intesa Sanpaolo Group Services (ISGS) the consortium company limited by shares established in order to centralise in a single instrumental company the structures providing IT, operating, real estate, organisational and other services supporting the business of the Group, the implementation of numerous projects continued.
The main activities carried out in the half year are illustrated below, with specific regard to projects with cross-cutting impacts across the Group, which mainly stem from regulatory obligations, business development opportunities or risk control needs.

Integrated Multi-channel Platform
The main objectives of the Integrated Multichannel Platform are:
- to redefine the role of the channels, distinguishing between "assisted" channels (Branches and Contact Units) and self-service channels (home banking, tablet, mobile and ATMs) to increase service levels to customers and sales;
- to enable multi-channel paths, in line with customers' preferences, on selected, priority products, integrating the various channels of the Bank;
- to exploit contact points with customers and data available to the Bank to trigger and take advantage of new commercial opportunities and monitor customer satisfaction.

The role of the channels must evolve in line with the principles set out in order to increase service levels and sales.
Specifically, during the first half of the year, as part of the New Digital Customer Experience, the Family & Friends version of the new Internet Banking site was released, followed by the gradual release of the new "Banca Online", with the launching of the new Internet Banking site for the entire Group. The new My Key service was also launched, that allows the customer's complete digital

profile to be managed at group level, with activation of the access credentials to the various channels and adoption of electronic signatures.
As part of the dematerialisation process, the new Personal Loans, Portfolio Management processes and a set of policies were released.
From the month of June, Retail and Personal Banking operations relating to products in the multichannel area are only carried out electronically, from the displaying of the proposal to the signing of the contract documentation, up to delivery and storage of the signed documents.
Interventions have been implemented for transactions at the counter as well, so Customers can use their Digital Signature and a "light" Graphometric Signature which will allow full dematerialisation - except in special cases - of the accounting records produced for operations with Retail Customers.

Digitisation of Group Core Processes
The digitisation of the Core Processes was launched through the “Digital Factory” in the second half of 2015 with the goal of upgrading the operating model, accelerating innovation and digitising processes, disseminating a new way of working based on internal and external cooperation and co-creation, starting from customers.
The Project, which is multi annual, as a whole envisages the redesigning of the Bank's 40 processes defined as "core". For each process the operations are divided into three main stages: redesign phase, engineering phase and the target calibration phase.
The Digital Factory's organisation envisages working in an "agile" way with high levels of participation by the Business and Governance Areas, through dedicated involvement of staff who continuously interact as they are all in a single teamroom (physical or virtual); continuous feedback from these working groups allows efficiency to be maximised in terms of timing and wealth of content.
Operations in the first half-year were concentrated on the processes for granting Mortgages to Individuals, renegotiating Mortgages to Individuals, Inheritance planning, Business & Corporate proactive Lending, Specialist International lending, all in the engineering phase, as well as the Online Branch, in the redesign phase.

Big (Financial) Data
The operational phases of the B(F)D project were launched with the goal of structural improvement of management of all of the Bank's data by defining and implementing technological and organisational interventions. The project is divided into several working phases with a multi-year time frame, planned to conclude by the end of 2018; it involves the gradual finalisation of the main data environments and the concurrent activation of the business initiatives using "Big Data” from 2016. To date the project has achieved the following objectives:
- consolidation of the Data Governance framework, setting up the structure responsible for it;
- connection of the main data environments of Wave 1 (~21,000 items of data) to the Data Lake, ready to be used by the Business, and activation of the new Data Quality tools (3,100 new controls activated and ~50 Key Quality Indicators monitored);
- proposal of the strategic design and upgrading of the target B(F)D architecture and identification of the integration scenarios for priority business chains;
- activation of the Ki Portal to access the main KPIs (~1,000) and Group Reports (~50) for ~1,700 users, and issue of the data and control "Dictionary";
- set-up of the "Big Data Lab", already operational with 6 structures to support Advanced Analytics.

Starting from January, Wave 2 was also launched aimed at integrating into B(F)D approximately another 60 subsystems. This new phase of the project took place in innovative ways involving the cooperation of the various corporate functions involved in a co-location environment in specific interdepartmental groups; the conclusion of Wave 2 is planned for the end of July.

Risk Aggregated Data and Reporting (RADAR)
The goal of the project is implementing the necessary measures to adopt the principles set out by the Basel Committee, aimed at increasing the robustness of data aggregation and reporting capabilities relating to all “significant risks” managed by the Bank, including in situations of tension or crisis.
During the first half year, the following were consolidated: the Data Quality methodology, including planning of specific activities such as identification of material data; the application architecture and integration logics with the Big Financial Data application model, with the definition of the relevant requirements; and the logics behind the creation of the Dictionary of terms.
The RADAR Factory was launched as from the end of April, an interdepartmental group in co-location, which operates in a similar manner to the B(F)D's Big Data Factory. The RADAR Factory focuses on the points of contact between B(F)D and RADAR, in particular on the creation of the data layer supplying the Risk chain relating to the B(F)D's Wave 1 and Wave 2 subsystems area.

New regulations for prudential supervision
The plan of work to be implemented for the Group’s Internal Control System (IICS) includes both the actions indicated in the Gap Analysis and those relating to the Information System and Business Continuity. During the first half of the year, with reference to the extension of the IICS Regulations to the International Subsidiary Banks, a draft text was prepared of the Regulations for the International Subsidiary Banks in the DBE Division and CLB, adapting the Parent Company's Regulations to the role of subsidiary and indicating the parts that each Bank will be able to customise to suit its own peculiarities.
As part of the initiative regarding the Evolution of the IICS on loans (levels I, II and III):
- the updating was completed of the level I control sheets relating to fast closing; the controls regarding the performing loans of the Corporate and Investment Banking Division as well as those relating to Overdue International Loans and Consumer Credit of the Banca dei Territori Division were formalised;
- the loan monitoring model and the preliminary analysis of the areas of oversight applied to Banca IMI, identified as having priority (controls on Structured Finance), were shared with the control functions of the Parent Company;
- the analysis relating to the priority controls on the Bad Loans Asset Class in the Capital Light Bank area has been completed;
- the detailed credit check model for each International Subsidiary Bank of the DBE was shared with the competent functions of the Parent Company, in line with the plan communicated to the ECB;
- as part of the Banca dei Territori Compliance Checks Table, the activities of analysis and repeating some oversight controls from the Chief Compliance Officer to the Regional Governance Centres of the BdT Division, were concluded.

Foreign Account Tax Compliance Act (FATCA)/Common Reporting Standard (CRS)

The project was initially activated to manage the alignment with the US FATCA regulations, created to combat tax evasion by US taxpayers through holding capital abroad. The criteria for due diligence on the identity of customers and the resulting automatic exchange of information between the tax authorities were extended to parties resident in other countries (CRS) on 1 January 2016. The main activities carried out in the first half of the year are illustrated below:

- the FATCA reports, for which the expiry date was fixed by 30 June, were sent for all the legal entities of the Group;
- a qualitative and quantitative survey was carried out on the activation status of the level I and II FATCA checks in the various Group companies;
- the entry into force of the CRS regulations was managed and the activities initiated for the identification and classification of customers by all the companies of the Group within this scope (1 January);
- the cases to be subjected to CRS Due Diligence relating to pre-existing customers were identified.

G20 Reforms Project (EMIR/Dodd Frank Act)

The G20 Reforms project is intended to guarantee the adaptation of the operating model for Intesa Sanpaolo, Banca IMI and the Banche dei Territori in order to respond to the regulatory obligations arising from the following reforms undertaken by the G20 with regard to investments in financial instruments:

- "EMIR", issued by Europe, on Over-The-Counter (OTC) trading;
- "Dodd Frank Act" (Title VI – Volcker Rule and Title VII – SD Registration), USA law on OTC and Forex (Swap and Forward) trading.

In addition to these there is the "Securities Financing Transactions Regulation" (SFTR), issued by EU, which governs the markets for financing through securities.

As concerns Emir, during the first half of the year, to respond to the requirements of the Authorities, the names were defined and announced of the Managers responsible for timely confirmation, dispute monitoring and reporting of derivative contracts, as well as the relevant reporting process being defined. The area of Group Banks was defined for which to apply to the Italian Competent Authority for exemption from clearing obligations for intragroup transactions and the forms for the application were prepared. The operations for setting up the counterparties clearing category in the register systems were completed and the operations carried out to allow Banca IMI (category1) to carry out clearing by the regulatory deadline (21 June 2016).

In relation to the Dodd Frank Act, all the preparatory activities were carried out to register Intesa Sanpaolo as a Swap Dealer, which took place on 4 April 2016, such as the preparation of the documentary framework (policies and procedures), validation of the procedures, consolidation of the set of controls, validation of the Functional Analyses and the realisation of the relative IT interventions. Planning activities were also begun for entry into full operation of the model used in the registration phase.

In relation to the Volcker rule, the internal procedures are in preparation, moreover the architecture is being implemented for the automatic monitoring of positions held in funds and structured products. In relation to proprietary trading operations are ongoing for the fine tuning of the monitoring and control framework.

In relation to the SFTR, during the first half-year, operations related to the Collateral Reuse stream, expiring 13 July 2016, were begun through the examination of the contracts / counterparties impacted by the requirement, the definition of the procedures for sending the disclosure (Information Statement) and sending the actual disclosure to the impacted counterparties.

Money Market Statistical Reporting (MMSR)

This project is aimed at defining the measures required to comply with EU Regulation no. 1333/2014, which requires the production of statistics on money market transactions, namely on secured, unsecured and certain derivatives money market transactions (Forex Swaps and OIS), concluded by Monetary Financial Institutions with other Monetary Financial Institutions and with financial institutions, public administrations or non-financial companies, excluding intragroup transactions.

In the first half-year the analysis of the products within this scope was concluded, for the purpose of launching the reporting in the transitional phase (April-June) and the transitional phase was initiated, by sending reporting flows to the ECB.

Prudent Valuation

The European CRR Regulation, requires that financial institutions apply prudent rules in the valuation of assets and liabilities designated at fair value (Prudent Valuation), for the purpose of reaching an appropriate level of certainty in valuation, and, for the purposes of capital requirements, deducting the amount of supplementary value adjustments from Common Equity Tier 1 (CET1). This prudent valuation of regulatory capital aims to incorporate the impact of uncertainty in valuation in the bank's capital. The EBA published the technical standards that define the scope of application, the guidelines for calculating the Additional Value Adjustment (AVA) and the related requirements in terms of documentation, systems and controls in October 2015: a project was thus launched under the Chief Risk Officer for adaptation to the regulatory demands by the Group. The calculation methods were defined and the support tools were developed by the scheduled date of 31 March 2016. By the end of the second half of the year, internal regulations will be adjusted through the issue of dedicated Guidelines, Rules and Operating Guides.

IFRS 9

At the end of 2015 the IFRS 9 project was launched in order to implement the new accounting standard which will replace IAS 39, currently in force, as from 1 January 2018. The new standard will impact the methods of classification and measurement of financial instruments, calculation logics and methods of value adjustments and the hedge accounting model (currently with regard to micro hedging) with effects also on the banking business, specifically on credit management and, presumably, on disbursement activities. The project, coordinated by the Administration and Tax Department, the Credit Risk Management Department and the Financial and Market Risks Department of the Parent Company, is divided into the following "vertical" processes: Classification and Measurement; Impairment - Loans; Impairment - Bonds; Hedge Accounting; Non-Core and International Subsidiaries. Two "horizontal" processes are also planned: the IT process and the Organisation process, which cross-cut the abovementioned vertical processes.

The project is developed based on the three areas in which the standard is organised:

- Classification and Measurement (C&M);
- Impairment;
- Hedge Accounting.

For each area, the same methodological approach set out in the following macro phases of activity is used:
- analysis and preliminary choices (mainly concerning accounting and the model);
- design of the target operating model and definition of the related IT impacts;
- application and organisational development and impact analysis.

On the basis of the developed plan, the work currently being done relates to identifying and analysing product portfolios, defining and simulating the new C&M rules (SPPI Test and Business Model) and identifying parameters for defining "significant impairment" and, as a result, for staging the credit exposures and calculating "expected loss".

As regards Hedge Accounting, the regulatory changes exclusively regard General Hedging and are strictly linked to the Group's decision to use the opt-in / opt-out (i.e., the option to implement the new IFRS 9 to manage specific hedges in combination with IAS 39 to manage Macro Fair Value Hedges, rather than continuing to adopt IAS 39 for all types of hedges). Analyses of the current management of hedging operations in support of this decision are in progress and will be completed in the second half of 2016.

As regards the C&M area, for the analysis on the characteristics of the contractual cash flows of the instruments (SPPI test), analyses were carried out on the Group's securities portfolios as at 31 December 2015. The analyses focused on portfolios classified as L&R and AFS. Specific supporting tools with increasing levels of depth were used for this purpose.

For the loans segment, the project continues the modular analyses that take account of the significance of the portfolios, of their homogeneity and of the business division. As regards the business model, the analyses are being completed for the mapping of the existing business model, prior to the definition of the one in terms of IFRS 9.

In the Impairment area, specific projects have been developed for both lending and securities operations. The analyses conducted concerned the following main issues:
- "staging", i.e. Elements that can or must result, for performing loans and securities, in transition from stage 1 (on which an adjustment equal to the expected loss at 12 months is envisaged) to stage 2 (on which a value adjustment equal to the lifetime expected loss is envisaged) and vice versa;
- cash flows, in view of the calculation of expected losses, particularly of the "lifetime" variety;
- definition of the model framework to be used in calculating expected loss.

Programma Filiere

Thanks to the building of innovative approaches, the Programma Filiere allows the Bank to support suppliers in Supply Chains through greater loan disbursement, at more favourable conditions and with a dedicated commercial offer. The three intervention areas identified to support supply chains are:
- Risk: valuing, within the process of assessing the supplier's creditworthiness, the "intangibles" connected to belonging to the selected supply chain thanks to industrial information provided by the supply chain Leader;
- Credit: definition of an upper Limit of Availability for the Supply Chain through proper understanding of the financial needs, both short-term and medium-long term, of the suppliers;
- Offering: development, in collaboration with the chain Leader, of a range of products/services offers, reserved at advantageous terms, that meets both the financial and non-financial needs of the players in the Supply chain and the employees belonging to same.

In the first half of 2016 the structures of ISGS supported the achievement of significant results within the scope of the Programme both by overseeing the updating of the regulations on the granting processes involved and by providing their own contribution in the definition of the new rules on supply chain management.

Cyber Security Program

The program, which develops over the two-year period 2016/2017, aims to increase the Group's maturity through more efficient and effective threat management, as well as strengthen the capabilities needed to mitigate the risk induced by cyber attacks.

The Security Maturity Assessment activities have been completed and the interventions master plan has been defined; the initiatives aimed at the implementation of the Technological Model and the development of external relations to strengthen infosharing and threat intelligence have been launched.

New Group Register

The advisability of the project arises from the need to guarantee an ever greater alignment with the directives on credit risk management at Group level, but also from the desire to align the underlying architectures with the latest technological standards, so as to be able to fully reap the potential arising from the management of multiple channels of customer contact. Therefore the project was started to capture multiple objectives, and in particular to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single infrastructure for the management of customers available with innovative features, usable in the various companies of the Group, and to enable the unification of the view on a single customer/prospect in relation to all the existing contact channels, traditional or digital.

After an intense period of study of the solutions and feasibility assessments, the project was formally launched in May, led by ISGS, involving all the necessary entities of the Group. The main ongoing activities concern the selection of a partner for the technological solution, the definition of the Target Model of operation of the New Register and the definition of the Group Database Model.

Processes Integrated Governance

On 21 April 2016 the Processes Integrated Governance Project was launched, with the aim of:
- Redefining the processes tree from an end-to-end perspective and the management model in terms of being integrated with risks and related controls
- Simplifying the current body of regulations to provide end users with products more suited to the new requirements;
- Defining a methodology and implementing a tool for measuring the performance of processes from an end-to-end perspective, using three indicators (effectiveness, efficiency and quality) to which specific KPIs are reconnected for each process being measured.

The aim is evolving the current architecture of business processes management, guaranteeing:
- full exploitation of existing assets (unified processes and activities data base at the domestic banking level from an end-to-end perspective, integration with the risk management systems and controls, availability of dedicated platforms) making the existing integrated view more efficient and effective;
- adequate support for the dialogue towards the new banking supervision system.

The project has already been submitted to the corporate functions involved and the planned four working groups have already started work: Processes tree, Methodologies, Controls and Measurement The first prototypes of the regulatory tools relating to the Mortgages to Individuals and Renegotiations processes have also already been released.

New Concept Branches

A new model of branch has been created, from the collaboration between the Banca dei Territori Division, ISGS and Innovation Center, with the aim of optimising space and offering a better welcome and commercial relationship with customers. Moreover, the New Concept branches have been structured to integrate multichannel strategies into the branch experience, steer cash transactions towards self-service systems, create spaces for the "new trades" and allow the organisation of events.
In addition to the aspects of relationship and management of the spaces in the New Concept branches a Plan was launched to greatly reduce conventional cash desks that are being replaced with assisted self-service Cash machines - CSAs, automatic machines for managing cash transactions that unlike an advanced ATM do not require accounting balancing and that will be progressively implemented to allow complete replacement of conventional cash desks. Currently the CSAs, with about 800 already installed, in addition to the traditional services available as self-service, also allow payments and reservations of F24 authorisations, execution of payments by notice (MAV) and payment of fines/taxes by notice (RAV), with optical reading of documents, cash payments and management of any change.

Main risks and uncertainties

The macroeconomic scenario, which remains challenging, and the high volatility of the financial markets require constant monitoring of the factors that make it possible to pursue sustainable profitability: high liquidity, funding capacity, low leverage, adequate capital base, and prudent asset valuations.

Group liquidity remains high: as at 30 June 2016, both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted also as internal liquidity risk measurement metrics, had reached a level well above fully phased-in requirements. At the end of June, the Central Banks eligible liquidity reserves came to 130 billion euro (117 billion euro at the end of December 2015), of which 69 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015). The loan to deposit ratio at the end of June 2016, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.
In terms of funding, the widespread branch network remains a stable, reliable source: 70% of direct deposits from banking business come from retail operations (269 billion euro). Moreover, during the half year, USD 1.5 billion in Tier 2 subordinated bonds, 1.25 billion euro in bank covered bonds and 1.25 billion euro in Additional Tier 1 instruments were placed on the international wholesale market.
In June, the Group participated in the first targeted longer-term refinancing operation TLTRO II programme for an amount of 36 billion euro (against a maximum that can be requested of 57 billion euro) after the repayment in full of the TLTRO I, outstanding at 27.6 billion euro.

Intesa Sanpaolo Group leverage (6.6% as at 30 June 2016) continues to be at the top levels recorded in the sector.

The capital base also remains high. Own funds, risk-weighted assets and the capital ratios at 30 June 2016 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 transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013) and Circular 154 (updated during 2013).
At the end of June, total Own Funds came to 48,564 million euro, against risk-weighted assets of 286,686 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The Total Capital Ratio stood at 16.9%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The Common Equity Tier 1 ratio stood at 12.7%.
The Common Equity Tier 1 capital does not include the net income for the period ended 30 June 2016 less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in own funds during 2016 only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.

With reference to the insurance sector, both for the consolidated/aggregate figures of the Companies in the Insurance Division and for the Intesa Sanpaolo Vita Insurance Group referred only to the subsidiaries (excluding Fideuram Life), the Solvency Ratio measurements (Solvency II) as at 30 June 2016 show a ratio higher than 180% (based on management evaluations).

The Group’s risk profile, remained within the limits approved by the Risk Appetite Framework, consistent with the intention to continue to privilege commercial banking operations. The trend in the Group’s VaR, shown in the following chart, was mainly determined by Banca IMI and is attributable in the first quarter of 2016 to scenarios of volatility in the financial markets that increased VaR absorptions, and to an extension of the portfolio. In the second quarter, it initially decreased as a result of sales and the exclusion of scenarios of volatility, and subsequently it grew slightly as a result of purchases of government securities. In correspondence to the outcome of the referendum in the UK, volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. The new scenario generated an increase in the Group's VaR towards the end of the period. Nevertheless, the risk measures remained within the assigned limits and, in the first days of July, decreased slightly.

The Group's average risk profile in the half year, which remained within the limit set by the Risk Appetite Framework, came to 101 million euro compared to an average value of 81 million euro in the first half of 2015.

The macroeconomic environment and the persisting financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over quality loans to customers and financial institutions, and of exposures subject to country risk.
Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and Financial institutions). 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 uniform 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.
The methods used to classify non-performing loans and to measure both non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The economic crisis has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans were assessed using the usual criteria of prudence, as highlighted by the substantial average coverage percentages for bad loans (60.7%) and unlikely to pay (24.7%).
With regard to performing loans to customers, the "collective" adjustments, equal to 1,954 million euro, provide a portfolio coverage ratio of 0.6% (0.7% at the end of 2015). These adjustments cover the expected loss calculated according to the Basel 3 rules.

Constant attention has been paid to the valuation of financial items. The majority of financial assets are measured at fair value, since classified as held for trading using the fair value option, under assets available for sale, or represented by hedging derivatives.
The fair value measurement of financial assets was carried out as follows: approximately 79% using level 1 inputs, around 19% using level 2 inputs and only close to 2% using level 3 inputs. Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (88%) were measured using the level 2 approach.

As regards the Intesa Sanpaolo Group' sovereign debt exposure, exposure in securities to the Italian government amounted to a total of approximately 92 billion euro, in addition to receivables for approximately 16 billion euro.
The Group banks' exposure in securities amounted to approximately 38 billion euro, of which approximately 9.5 billion euro up to 3 years (26%), with a duration of 5.2 years. On the other hand, the duration of the insurance portfolio is longer, at 6.5 years, consistently with that of liabilities.
Investment levels in structured credit products and hedge funds remained low. For the first of these products, the fair value changes during the half year generated a negative impact of 2 million euro. For the hedge funds, the economic result of the investments in this segment in the period considered was negative for 44 million euro.

With regard to intangible assets with indefinite useful life, consisting of the goodwill and the brand name, recognised under balance sheet assets at a total residual value of 5,796 million euro (including 3,914 million euro of goodwill), during the first half of 2015, no indicators impacting the positive conclusions made in the 2015 financial statements about the solidity of assets values were found. The analyses conducted on preparing the Half-Yearly Report showed no significant changes in the main parameters and macroeconomic aggregates, including following the British referendum, which could have a substantial impact on the Group's expected cash flows.
The update to the discounting rates showed a decrease in the cost of capital considered for the explicit forecasting horizon, specifically due to the decrease in the risk-free rate. With regard to the cost of capital implicit in the Terminal Value, being prudently

based on parameters estimated as at 2018, considering the extraordinarily low current rates, no evidence emerged such as to require an update.
On the other hand, in relation to the Group's income dynamics, it is emphasised that the results for the first part of the year are substantially in line with respect to the budget forecasts for the same period of time and there is no evidence at the moment, from the British referendum, that could substantially affect the Group's income prospects.
In conclusion, in the light of the above, no critical elements have been identified, compared to the indicators already considered in the 2015 impairment test, such as to require recalculation of Value in use in the half-year financial statements, including in view of the sensitivity analyses carried out at that time.
With regard to the values expressed by the market, it should be noted that the listing of the Intesa Sanpaolo (ordinary) shares suffered a decline in the half-year that brought the value of the shares to 2.2 euro on the 23 June 2016, the day of the British referendum, recording a fall of 28% against the values at the end of 2015. This fall was accentuated in the days following the referendum that led quotation of the Intesa Sanpaolo shares at 1.6 euros per share on the 30 June 2016; this fall was then partly reversed in the following weeks, when the shares went back up to close to 2 euro. The fall recorded by the Intesa Sanpaolo shares in the half-year was due to the uncertainty that characterised the financial markets in the first half of the year with particular reference to the Italian banking sector, which was particularly influenced by the issue of Non-Performing Loans (NPLs).
An examination of the analysts' assessments shows a reduction in the so-called "target price", due however to exogenous factors linked to the likely effects of Great Britain's exit from the European Union, rather than endogenous factors attributable directly to Intesa Sanpaolo; specifically a picture of uncertainty emerges that has driven analysts to increase the prudence used in their estimations of future profits, reduced on average by 10% regards the two year period 2017-2018, and of the cost of capital. In this regard we note that, on the basis of what emerged from the impairment tests carried out at the time of the 2015 Financial Statements, for the Asset Management, Private Banking and Insurance CGUs, the Value in use is significantly higher than the carrying value. For the Banca dei Territori CGU, on the other hand, this margin is smaller; however, from the sensitivity analyses it emerged as a 10% reduction in the Terminal Value flow which translates into a reduction of about 9% of the Value of use, which would however be much higher than the carrying value. The opinions of the analysts, however, still do not appear entirely uniform and this is reflected in the very large range of the target prices (1.9 - 3.1 euro per share); in some cases the variation in the target price has remained unchanged or been reviewed only slightly downwards.
The parameters and the information used to check the recoverability of intangible values with an indefinite useful life are significantly influenced by the macroeconomic framework and the dynamics of the financial markets which could record changes that are at present unpredictable; with regard specifically to the result of the British referendum, the definition of its precise impact will depend on the progress made in the negotiations between the European Union and Great Britain.
All indicators will continue to be carefully monitored during the second half of the year, in order to immediately identify any factors that might modify the positive conclusions outlined in this Half-yearly Report.
For a more detailed description of the methods and parameters used for the impairment test of intangible assets, reference should be made to the Notes to the 2015 Financial Statements - Part B.

Finally, with regard to the going concern assumption, the Directors of Intesa Sanpaolo have a reasonable certainty that the company will continue in operational existence in the foreseeable future. In fact, in the asset and financial structure and in the performance of operations of the Group, no uncertainties have been detected that would cast doubt on the going concern assumption. Consequently, the Half-Yearly Report as at 30 June 2016 has been prepared on a going concern basis.

Half-yearly condensed consolidated Financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		30.06.2016	31.12.2015	CHANGES amount	CHANGES %
10.	Cash and cash equivalents	7,824	9,344	-1,520	-16.3
20.	Financial assets held for trading	52,499	51,597	902	1.7
30.	Financial assets designated at fair value through profit and loss	57,948	53,663	4,285	8.0
40.	Financial assets available for sale	152,465	131,402	21,063	16.0
50.	Investments held to maturity	1,246	1,386	-140	-10.1
60.	Due from banks	36,879	34,445	2,434	7.1
70.	Loans to customers	361,251	350,010	11,241	3.2
80.	Hedging derivatives	8,048	7,059	989	14.0
90.	Fair value change of financial assets in hedged portfolios (+/-)	961	110	851	
100.	Investments in associates and companies subject to joint control	1,400	1,727	-327	-18.9
110.	Technical insurance reserves reassured with third parties	20	22	-2	-9.1
120.	Property and equipment	5,003	5,367	-364	-6.8
130.	Intangible assets	7,113	7,195	-82	-1.1
	of which				
	- goodwill	*3,914*	*3,914*	-	-
140.	Tax assets	14,398	15,021	-623	-4.1
	a) current	*2,901*	*3,626*	*-725*	*-20.0*
	b) deferred	*11,497*	*11,395*	*102*	*0.9*
	- of which convertible into tax credit (Law no. 214/2011)	*8,626*	*8,749*	*-123*	*-1.4*
150.	Non-current assets held for sale and discontinued operations	966	27	939	
160.	Other assets	9,271	8,121	1,150	14.2
Total Assets		**717,292**	**676,496**	**40,796**	**6.0**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2016	31.12.2015	CHANGES amount	CHANGES %
10.	Due to banks	67,656	59,327	8,329	14.0
20.	Due to customers	271,722	255,258	16,464	6.4
30.	Securities issued	107,921	110,144	-2,223	-2.0
40.	Financial liabilities held for trading	49,340	43,522	5,818	13.4
50.	Financial liabilities designated at fair value through profit and loss	51,360	47,022	4,338	9.2
60.	Hedging derivatives	11,317	8,234	3,083	37.4
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,005	1,014	-9	-0.9
80.	Tax liabilities	2,186	2,367	-181	-7.6
	a) current	*342*	*508*	*-166*	*-32.7*
	b) deferred	*1,844*	*1,859*	*-15*	*-0.8*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	336	-	336	
100.	Other liabilities	14,476	11,566	2,910	25.2
110.	Employee termination indemnities	1,456	1,353	103	7.6
120.	Allowances for risks and charges	3,531	3,480	51	1.5
	a) post employment benefits	*1,241*	*859*	*382*	*44.5*
	b) other allowances	*2,290*	*2,621*	*-331*	*-12.6*
130.	Technical reserves	86,813	84,616	2,197	2.6
140.	Valuation reserves	-1,860	-1,018	842	82.7
150.	Redeemable shares	-	-	-	
160.	Equity instruments	2,118	877	1,241	
170.	Reserves	9,540	9,167	373	4.1
180.	Share premium reserve	27,349	27,349	-	-
190.	Share capital	8,732	8,732	-	-
200.	Treasury shares (-)	-59	-70	-11	-15.7
210.	Minority interests (+/-)	646	817	-171	-20.9
220.	Net income (loss)	1,707	2,739	-1,032	-37.7
Total Liabilities and Shareholders' Equity		**717,292**	**676,496**	**40,796**	**6.0**

Consolidated income statement

(millions of euro)

	1st half of 2016	1st half of 2015	CHANGES amount	CHANGES %
10. Interest and similar income	6,542	6,956	-414	-6.0
20. Interest and similar expense	-2,187	-2,564	-377	-14.7
30. Interest margin	**4,355**	**4,392**	**-37**	**-0.8**
40. Fee and commission income	4,059	4,344	-285	-6.6
50. Fee and commission expense	-817	-823	-6	-0.7
60. Net fee and commission income	**3,242**	**3,521**	**-279**	**-7.9**
70. Dividend and similar income	326	268	58	21.6
80. Profits (Losses) on trading	251	366	-115	-31.4
90. Fair value adjustments in hedge accounting	-64	-50	14	28.0
100. Profits (Losses) on disposal or repurchase of	711	1,305	-594	-45.5
a) loans	*-1*	*23*	*-24*	
b) financial assets available for sale	*701*	*1,403*	*-702*	*-50.0*
c) investments held to maturity	-	-	-	
d) financial liabilities	*11*	*-121*	*132*	
110. Profits (Losses) on financial assets and liabilities designated at fair value	435	511	-76	-14.9
120. Net interest and other banking income	**9,256**	**10,313**	**-1,057**	**-10.2**
130. Net losses / recoveries on impairment	-1,359	-1,362	-3	-0.2
a) loans	*-1,317*	*-1,382*	*-65*	*-4.7*
b) financial assets available for sale	*-90*	*-32*	*58*	
c) investments held to maturity	-	-	-	
d) other financial activities	*48*	*52*	*-4*	*-7.7*
140. Net income from banking activities	**7,897**	**8,951**	**-1,054**	**-11.8**
150. Net insurance premiums	5,142	6,081	-939	-15.4
160. Other net insurance income (expense)	-6,088	-7,372	-1,284	-17.4
170. Net income from banking and insurance activities	**6,951**	**7,660**	**-709**	**-9.3**
180. Administrative expenses	-4,470	-4,422	48	1.1
a) personnel expenses	*-2,682*	*-2,592*	*90*	*3.5*
b) other administrative expenses	*-1,788*	*-1,830*	*-42*	*-2.3*
190. Net provisions for risks and charges	-113	-123	-10	-8.1
200. Net adjustments to / recoveries on property and equipment	-169	-166	3	1.8
210. Net adjustments to / recoveries on intangible assets	-272	-268	4	1.5
220. Other operating expenses (income)	340	354	-14	-4.0
230. Operating expenses	**-4,684**	**-4,625**	**59**	**1.3**
240. Profits (Losses) on investments in associates and companies subject to joint control	107	81	26	32.1
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	9	24	-15	-62.5
280. Income (Loss) before tax from continuing operations	**2,383**	**3,140**	**-757**	**-24.1**
290. Taxes on income from continuing operations	-678	-1,106	-428	-38.7
300. Income (Loss) after tax from continuing operations	**1,705**	**2,034**	**-329**	**-16.2**
310. Income (Loss) after tax from discontinued operations	105	30	75	
320. Net income (loss)	**1,810**	**2,064**	**-254**	**-12.3**
330. Minority interests	-103	-60	43	71.7
340. Parent Company's net income (loss)	**1,707**	**2,004**	**-297**	**-14.8**
Basic EPS - Euro	**0.10**	**0.12**		
Diluted EPS - Euro	**0.10**	**0.12**		

Statement of consolidated comprehensive income

(millions of euro)

		1st half of 2016	1st half of 2015	Changes amount	%
10.	**NET INCOME (LOSS)**	**1,810**	**2,064**	**-254**	**-12.3**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**-372**	**366**	**-738**	
20.	Property and equipment	-	-	-	
30.	Intangible assets	-	-	-	
40.	Defined benefit plans	-372	366	-738	
50.	Non-current assets held for sale	-	-	-	
60.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-509**	**-189**	**320**	
70.	Hedges of foreign investments	-	-	-	
80.	Foreign exchange differences	-45	67	-112	
90.	Cash flow hedges	-222	233	-455	
100.	Financial assets available for sale	-216	-523	-307	-58.7
110.	Non-current assets held for sale	-	-	-	
120.	Share of valuation reserves connected with investments carried at equity	-26	34	-60	
130.	**Total other comprehensive income (net of tax)**	**-881**	**177**	**-1,058**	
140.	**TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +110)**	**929**	**2,241**	**-1,312**	**-59**
150.	**Total consolidated comprehensive income pertaining to minority interests**	**64**	**64**	**-**	**-**
160.	**Total consolidated comprehensive income pertaining to the Parent Company**	**865**	**2,177**	**-1,312**	**-60.3**

Changes in consolidated shareholders’ equity as at 30 June 2016

(millions of euro)

	30.06.2016											
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	*Group shareholders' equity*	*Minority interests*
	ordinary shares	savings shares		retained earnings	other							
AMOUNTS AS AT 1.1.2016	**8,804**	**485**	**27,521**	**8,544**	**578**	**-950**	**877**	**-72**	**2,806**	**48,593**	*47,776*	*817*
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR [(a)]												
Reserves				**366**					**-366**	**-**	*-*	*-*
Dividends and other allocations									**-2,440**	**-2,440**	*-2,371*	*-69*
CHANGES IN THE PERIOD												
Changes in reserves										**-**	*-*	*-*
Operations on shareholders' equity												
Issue of new shares								11		**11**	*11*	*-*
Purchase of treasury shares										**-**	*-*	*-*
Extraordinary dividends										**-**	*-*	*-*
Changes in equity instruments							1,241			**1,241**	*1,241*	*-*
Derivatives on treasury shares										**-**	*-*	*-*
Stock options										**-**	*-*	*-*
Changes in equity investmens	7			-7						**-**	*-*	*-*
Other	-68		-106	13						**-161**	*5*	*-166*
Total comprehensive income for the period						**-881**			**1,810**	**929**	*865*	*64*
SHAREHOLDERS’ EQUITY AS AT 30.06.2016	**8,743**	**485**	**27,415**	**8,916**	**578**	**-1,831**	**2,118**	**-61**	**1,810**	**48,173**	*47,527*	*646*
- Group	**8,247**	**485**	**27,349**	**8,962**	**578**	**-1,860**	**2,118**	**-59**	**1,707**	**47,527**		
- minority interests	**496**	**-**	**66**	**-46**	**-**	**29**	**-**	**-2**	**103**	**646**		

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

Changes in consolidated shareholders’ equity as at 30 June 2015

(millions of euro)

	30.06.2015											
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	*Group shareholders' equity*	*Minority interests*
	ordinary shares	savings shares		retained earnings	other							
AMOUNTS AS AT 1.1.2015	**8,510**	**488**	**27,369**	**8,583**	**510**	**-1,631**	**-**	**-77**	**1,310**	**45,062**	*44,683*	*379*
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR [(a)]												
Reserves				**95**					**-95**	**-**	*-*	*-*
Dividends and other allocations									**-1,215**	**-1,215**	*-1,195*	*-20*
CHANGES IN THE PERIOD												
Changes in reserves										**-**	*-*	*-*
Operations on shareholders' equity										**-**		
Issue of new shares								21		**21**	*21*	*-*
Purchase of treasury shares										**-**	*-*	*-*
Extraordinary dividends										**-**	*-*	*-*
Changes in equity instruments										**-**	*-*	*-*
Derivatives on treasury shares										**-**	*-*	*-*
Stock options										**-**	*-*	*-*
Changes in equity investmens	50									**50**	*-*	*50*
Other	195		39	-64						**170**	*9*	*161*
Total comprehensive income for the period						**177**			**2,064**	**2,241**	*2,177*	*64*
SHAREHOLDERS’ EQUITY AS AT 30.06.2015	**8,755**	**488**	**27,408**	**8,614**	**510**	**-1,454**	**-**	**-56**	**2,064**	**46,329**	*45,695*	*634*
- Group	**8,240**	**485**	**27,349**	**8,609**	**510**	**-1,449**	**-**	**-53**	**2,004**	**45,695**		
- minority interests	**515**	**3**	**59**	**5**	**-**	**-5**	**-**	**-3**	**60**	**634**		

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

Consolidated statement of cash flows

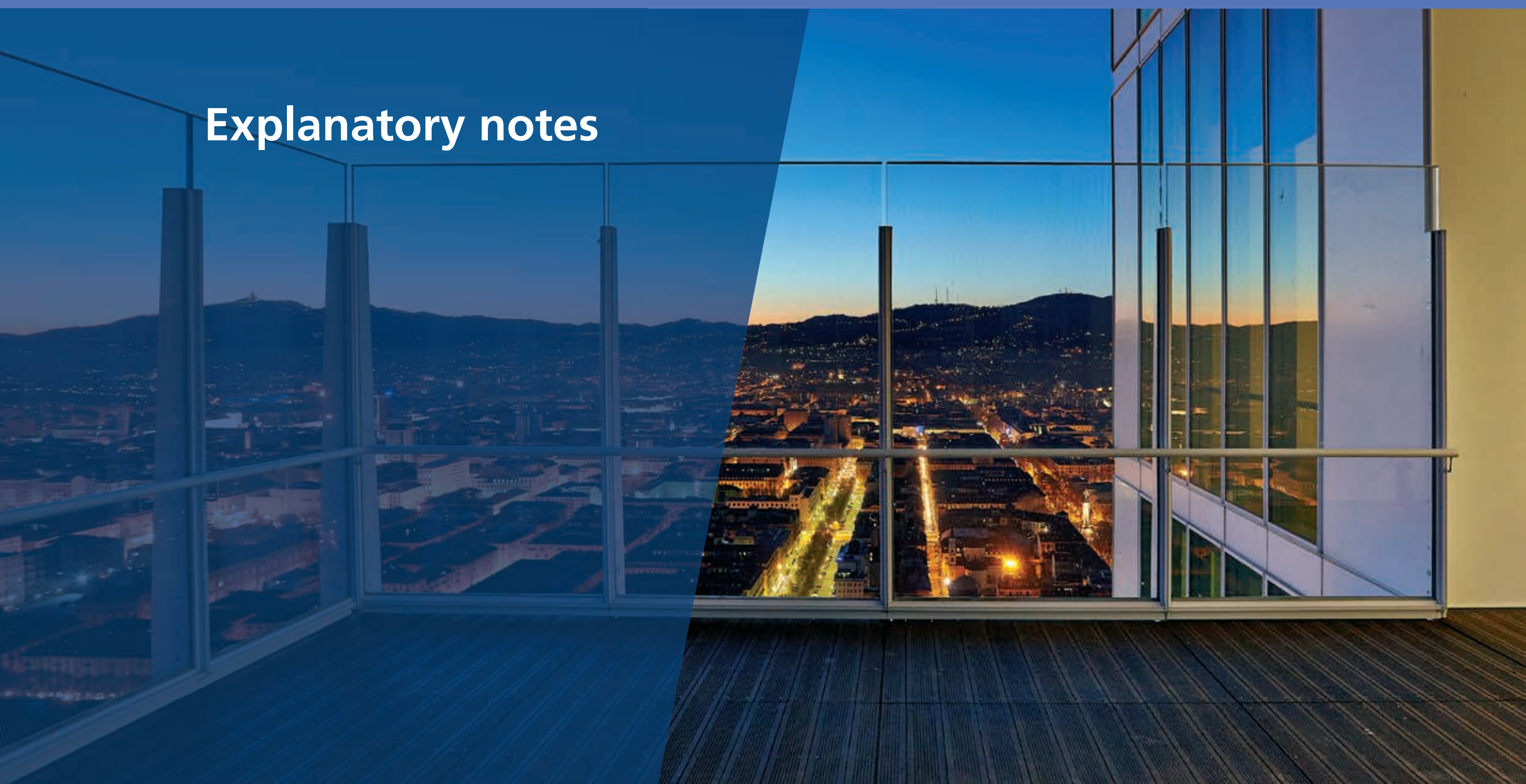
(millions of euro)

	30.06.2016	30.06.2015
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**4,200**	**4,368**
- net income (loss) (+/-)	1,810	2,064
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-415	1,526
- gains/losses on hedging activities (-/+)	64	50
- net losses/recoveries on impairment (+/-)	1,668	1,649
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	441	434
- net provisions for risks and charges and other costs/revenues (+/-)	194	306
- net insurance premiums to be collected (-)	4	14
- other insurance revenues/charges to be collected (-/+)	1,777	2,121
- taxes, duties and tax credits to be paid/collected(+/-)	160	91
- net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
- other adjustments (+/-)	-1,503	-3,887
2. Cash flow from / used in financial assets	**-43,374**	**-21,269**
- financial assets held for trading	-720	2,102
- financial assets designated at fair value through profit and loss	-4,414	-4,224
- financial assets available for sale	-20,514	-10,224
- due from banks: repayable on demand	-9,386	-432
- due from banks: other	6,952	892
- loans to customers	-12,814	-6,929
- other assets	-2,478	-2,454
3. Cash flow from / used in financial liabilities	**38,947**	**17,969**
- due to banks: repayable on demand	8	2,359
- due to banks: other	8,597	8,460
- due to customers	16,447	11,473
- securities issued	-2,212	-7,256
- financial liabilities held for trading	5,887	-3,151
- financial liabilities designated at fair value through profit and loss	4,902	5,020
- other liabilities	5,318	1,064
Net cash flow from (used in) operating activities	**-227**	**1,068**
B. INVESTING ACTIVITIES		
1. Cash flow from	**193**	**45**
- sales of investments in associates and companies subject to joint control	53	-
- dividends collected on investments in associates and companies subject to joint control	-	-
- sales/reimbursements of investments held to maturity	140	45
- sales of property and equipment	-	-
- sales of intangible assets	-	-
- sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-289**	**-719**
- purchases of investments in associates and companies subject to joint control	-	-5
- purchases of investments held to maturity	-	-
- purchases of property and equipment	-82	-49
- purchases of intangible assets	-207	-155
- purchases of subsidiaries and business branches	-	-510
Net cash flow from (used in) investing activities	**-96**	**-674**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	11	21
- share capital increases	1,241	-
- dividend distribution and other	-2,440	-1,215
Net cash flow from (used in) financing activities	**-1,188**	**-1,194**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-1,511**	**-800**

RECONCILIATION		
Captions		
Cash and cash equivalents at beginning of period	9,344	6,631
Net increase (decrease) in cash and cash equivalents	-1,511	-800
Cash and cash equivalents: foreign exchange effect	-9	9
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**7,824**	**5,840**

LEGEND: (+) from (–) used in

Explanatory notes



Accounting policies

General preparation principles

The Half-yearly condensed consolidated financial statements as at 30 June 2016 have been prepared in compliance with the requirements of art. 154-ter of Legislative Decree 58 of 24 February 1998. They have also been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission and in force as at 30 June 2016, as provided for by EU Regulation 1606 of 19 July 2002.
In particular, the Half-yearly condensed consolidated financial statements have been prepared in compliance with IAS 34 requirements, which regulate interim financial reporting.
The Half-yearly condensed consolidated financial statements have been prepared using the principles endorsed and in force as at 30 June 2016, including related SIC and IFRIC interpretation documents.
The accounting principles adopted in the preparation of the Half-yearly condensed consolidated financial statements, with regard to the classification, recognition, measurement and derecognition of asset and liability captions, and the recognition methods for revenues and costs, have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2015 – to which reference should be made for further details – with the exception of the entry into force, as from 2016, of some limited amendments to some international accounting standards (none of which are relevant to the Intesa Sanpaolo Group).

Preparation of the Half-yearly condensed consolidated financial statements requires the use of estimates and assumptions in the determination of certain cost and income components and for the measurement of assets and liabilities. Again reference must be made to the 2015 Annual Report for the related description. Moreover, please note that in certain valuation processes, in particular the more complex ones, such as the asset impairment tests, these are generally performed in their entirety at the time of preparation of the annual report, with the exception of the cases in which there are significant impairment indicators which require the immediate valuation of losses.

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 Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, the Statement of cash flows and the Explanatory notes. They are also complemented by information on significant events which occurred in the period, on the main risks and uncertainties to be faced in the remaining months of the year, as well as information on significant related party transactions.
The amounts indicated in the financial statements and Explanatory notes are expressed in millions of euro, unless otherwise specified.
In addition to amounts for the reporting period, the financial statements also indicate the corresponding comparison figures for the first half of 2015 in the Income statement and at 31 December 2015 for the Balance sheet.

Moreover, as already known, an agreement was reached in May with a third party company – completion of which is expected by the end of 2016 – for the disposal of the entire share capital of the Setefi and Intesa Sanpaolo Card subsidiaries. In this regard and taking into account, pursuant to IFRS 5, the classification of assets involved in disposals as non-current assets held for sale and discontinued operations (or, more specifically, in the case in instance, as "discontinued operations"), in the specific consolidated captions in these Half-yearly condensed consolidated financial statements, the income statement and balance sheet totals for the period referred to the assets being disposed of have been reclassified and the comparison balances for the previous period have been restated.
Likewise in May, Intesa Sanpaolo and the other A4 Holding shareholders reached an agreement - subject to conditions precedent - with the Abertis Group for the sale of 51.4% of the investment held indirectly, for Intesa Sanpaolo, through two companies (Oldequiter and Reconsult). Under the agreement reached, for the purposes of classification of the investments in Oldequiter and Reconsult, the requirements of IFRS 5 for their recognition as non-current assets held for sale and discontinued operations are deemed to be met; consequently, as from the present Half-yearly condensed consolidated financial statements, these investments have been classified accordingly. As they cannot be considered as "discontinued operations" (which IFRS 5 defines as "a separate major line of business or geographical area of operations"), the equity investments involved in the transaction under consideration were however reclassified as non-current assets held for sale only with reference to the balance sheet totals.
As from March 2016, therefore, also in these Half-yearly condensed consolidated financial statements, some properties of Risanamento S.p.A., a company controlled by Intesa Sanpaolo pursuant to IFRS 10, were reclassified among non-current assets held for sale and discontinued operations according to IFRS 5. However for the Intesa Sanpaolo Group the properties in question do not represent a "discontinued operation". As a consequence, based on the indications of the standard in question, the reclassification only concerned the balance sheet totals, and not also the related economic effects, and did not lead to the restatement of the comparison balances of the previous year. Furthermore, the related liabilities associated to the discontinued operations were also subject to reclassification under the specific item of the liabilities in the Balance sheet.

As usual, condensed reclassified financial statements have been prepared to give a more immediate understanding of results for the period. To enable consistent comparison, the figures are restated, where necessary, 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. Attached to the Half-yearly condensed consolidated financial statements are the reconciliations between the financial statements and the aforementioned condensed reclassified statements.

The Half-yearly condensed consolidated financial statements as at 30 June 2016 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.

Scope of consolidation and consolidation methods

Scope of consolidation

The Consolidated Half-Year 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, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no stake in the company.
In particular, compared to the 2015 Financial Statements, note should be taken of the consolidation of Equiter S.p.A. using the equity method as a result of the loss of control of the company.
Intragroup company transactions, during the first half year of 2016, included:
- the contribution of the business line represented by the Amsterdam branch from Intesa Sanpaolo to Intesa Sanpaolo Bank Luxembourg;
- the partial demerger of Setefi (the "commercial acquiring" line towards captive customers) into Intesa Sanpaolo;
- the merger by incorporation of Banca dell'Adriatico into Intesa Sanpaolo;
- the partial proportional demerger of Oldequiter into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo.

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.

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

Consolidation methods

The methods used for line-by-line consolidation of subsidiaries and consolidation by the equity method of associates and companies subject to joint control have remained unchanged with respect to those adopted for the 2015 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-Year Report as at 30 June 2016 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.

	Name	Operating office	Registered office	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
1	Accedo S.p.A. Capital 110,000,000 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
2	Banca IMI S.p.A. Capital 962,464,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
3	Banca Imi Securities Corp Capital USD 44,500,000	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
4	Banca Intesa a.d., Beograd Capital RSD 21,315,900,000	Novi Beograd	Novi Beograd	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	84.79 15.21 100.00	
5	Banca Intesa Joint-Stock Company Capital RUB 10,820,180,800	Moscow	Moscow	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	53.02 46.98 100.00	
6	Banca Prossima S.p.A. (h) Capital 81,999,999.64 euro	Milano	Milano	1	Intesa Sanpaolo	80.16	
7	Banco di Napoli S.p.A. Capital 1,000,000,000 euro	Napoli	Napoli	1	Intesa Sanpaolo	100.00	
8	Bank of Alexandria S.A.E. (d) Capital EGP 800,000,000	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
9	Banka Koper d.d. (e) Capital 22,173,218.16 euro	Koper	Koper	1	Intesa Sanpaolo	98.49	
10	Brivon Hungary Zrt - in voluntary liquidation (formerly Brivon Hungary Zrt) Capital HUF 15,000,000	Budapest	Budapest	1	Recovery Property Utilisation and Services	100.00	
11	Cassa dei Risparmi di Forlì e della Romagna S.p.A. Capital 214,428,465 euro	Forlì	Forlì	1	Intesa Sanpaolo	83.48	
12	Cassa di Risparmio del Friuli Venezia Giulia S.p.A. Capital 210,263,000 euro	Udine	Gorizia	1	Intesa Sanpaolo	100.00	
13	Cassa di Risparmio del Veneto S.p.A. Capital 781,169,000 euro	Padova	Padova	1	Intesa Sanpaolo	100.00	
14	Cassa di Risparmio di Firenze S.p.A. Capital 418,230,438.24 euro	Firenze	Firenze	1	Intesa Sanpaolo	100.00	
15	Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. (f) Capital 171,846,279.99 euro	Pistoia	Pistoia	1	Cassa di Risparmio di Firenze Intesa Sanpaolo	74.88 8.11 82.99	
16	Cassa di Risparmio in Bologna S.p.A. Capital 703,692,000 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
17	Casse di Risparmio dell'Umbria S.p.A. Capital 187,657,326 euro	Terni	Terni	1	Intesa Sanpaolo	98.71	
18	Cib Bank Ltd Capital HUF 50,000,000,002	Budapest	Budapest	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	67.69 32.31 100.00	
19	CIB Car Trading Ltd - in voluntary liquidation (formerly CIB Car Trading Ltd) Capital HUF 10,000,000	Budapest	Budapest	1	Recovery Property Utilisation and Services	100.00	
20	CIB Factor Financial Services Ltd Capital HUF 103,500,000	Budapest	Budapest	1	Cib Bank	100.00	
21	CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank	100.00	
22	CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost	100.00	
23	CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank	100.00	
24	CIB Real Estate Ltd Capital HUF 52,000,000	Budapest	Budapest	1	Cib Bank	100.00	
25	CIB Rent Operative Leasing Ltd Capital HUF 800,000,000	Budapest	Budapest	1	Cib Bank	100.00	
26	Compagnia Italiana Finanziaria - CIF S.r.l. Capital 138,864,869 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
27	Consumer Finance Holding a.s. Capital 53,110,277 euro	Kezmarok	Kezmarok	1	Vseobecna Uverova Banka	100.00	
28	Consumer Finance Holding Ceska Republika a.s. Capital Czk 2,000,000	Praga	Praga	1	Consumer Finance Holding	100.00	
29	Duomo Funding Plc (g)	Dublin	Dublin	4	Intesa Sanpaolo	-	
30	Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR Banca IMI	51.00 49.00 100.00	
31	Etoile 50 Montaigne S.a.r.l. Capital 8,255,106 euro	Paris	Paris	1	Risanamento Europa	100.00	

Name		Operating office	Registered office	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
32	Etoile 54 Montaigne S.a.r.l. Capital 6,269,779 euro	Paris	Paris	1	Risanamento Europa	100.00	
33	Etoile Actualis S.a.r.l. Capital 29,709,643 euro	Paris	Paris	1	Risanamento Europa	100.00	
34	Etoile François Premier S.a.r.l. Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
35	Etoile Rome S.a.r.l. Capital 1,138,656 euro	Paris	Paris	1	Risanamento Europa	100.00	
36	Etoile Saint Augustin S.a.r.l. Capital 2,396,734 euro	Paris	Paris	1	Risanamento Europa	100.00	
37	Etoile Saint Florentin S.a.r.l. Capital 540,720 euro	Paris	Paris	1	Risanamento Europa	100.00	
38	Etoile Services S.a.r.l. Capital 1,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
39	Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
40	Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
41	Euro-Tresorerie S.A. Capital 250,038,322.20 euro	Paris	Paris	1	Financière Fideuram	100.00	
42	Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
43	Fideuram Asset Management (Ireland) Ltd Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
44	Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
45	Fideuram Fiduciaria S.p.A. Capital 1,551,000 euro	Torino	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
46	Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
47	Fideuram Vita S.p.A. Capital 357,446,836.42 euro	Roma	Roma	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking	80.01 19.99 100.00	
48	Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
49	Imbonati S.p.A. in liquidation (i) Capital 23,567,547 euro	Milano	Milano	1	Risanamento	100.00	
50	IMI Capital Markets USA Corp. Capital USD 5.000	New York	New York	1	IMI Investments	100.00	
51	IMI Finance Luxembourg S.A. Capital 100,000 euro	Luxembourg	Luxembourg	1	IMI Investments	100.00	
52	IMI Fondi Chiusi S.G.R. S.p.A. Capital 2,000,000 euro	Bologna	Bologna	1	IMI Investimenti	100.00	
53	IMI Investimenti S.p.A. Capital 579,184,200 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
54	IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
55	Immobiliare Cascina Rubina S.r.l. (i) Capital 1,371,066 euro	Milano	Milano	1	Risanamento	100.00	
56	IN.FRA - Investire nelle Infrastrutture S.p.A. Capital 117,342,245.47 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
57	Infogroup S.c.p.A. Capital 4,352,000 euro	Firenze	Firenze	1	Cassa di Risparmio di Firenze Intesa Sanpaolo Cassa di Risparmio di Pistoia e della Lucchesia Intesa Sanpaolo Group Services Casse di Risparmio dell'Umbria other minority interests	65.45 31.76 2.76 0.01 0.01 0.01 100.00	
58	Iniziative Logistiche S.r.l. Capital 81,120,724.80 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
59	Intesa Funding LLC Capital USD 25,000	New York	Wilmington	1	Intesa Sanpaolo	100.00	
60	Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
61	Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
62	Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
63	Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
64	Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	

	Name	Operating office	Registered office	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
65	Intesa Sanpaolo Bank Luxembourg S.A. Capital 539,370,828.01 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	99.21 0.79 100.00	
66	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	94.94	
67	Intesa Sanpaolo Brasil S.A. - Banco Multiplo Capital BRL 306,065,234.44	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.90 0.10 100.00	
68	Intesa Sanpaolo Card BH D.O.O. (l) Capital BAM 3,649,126.50	Sarajevo	Sarajevo	1	Intesa Sanpaolo Card Zagreb	100.00	
69	Intesa Sanpaolo Card d.o.o. - Ljubljana (l) Capital 5,618,760.80 euro	Ljubljana	Ljubljana	1	Intesa Sanpaolo Card Zagreb	100.00	
70	Intesa Sanpaolo Card d.o.o. - Zagreb (l) Capital HRK 30,863,400	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International Privredna Banka Zagreb Banka Koper	51.32 33.34 15.34 100.00	
71	Intesa Sanpaolo Group Services S.c.p.A. Capital 272,286,637 euro	Torino	Torino	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking Cassa di Risparmio del Veneto Cassa di Risparmio di Firenze Banco di Napoli Banca Imi Eurizon Capital SGR Intesa Sanpaolo Vita Casse di Risparmio dell'Umbria other minority interests	99.90 0.01 0.01 0.01 0.01 0.01 0.01 0.01 0.01 0.02 100.00	
72	Intesa Sanpaolo Holding International S.A. Capital 2,200,087,440 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
73	Intesa Sanpaolo Immobilière S.A. Capital 350,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
74	Intesa Sanpaolo Life Ltd Capital 625,000 euro	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
75	Intesa Sanpaolo Private Bank (Suisse) S.A. Capital CHF 20,000,000	Lugano	Lugano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
76	Intesa Sanpaolo Private Banking S.p.A. Capital 105,497,424 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
77	Intesa Sanpaolo Provis S.p.A. Capital 4,625,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
78	Intesa Sanpaolo RE.O.CO. S.p.A. Capital 8,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
79	Intesa Sanpaolo Real Estate S.A. Capital 2,940,476 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
80	Intesa Sanpaolo Romania S.A. Commercial Bank Capital RON 886,639,410	Bucharest	Bucharest	1	Intesa Sanpaolo Cassa di Risparmio di Firenze Intesa Sanpaolo Holding International	91.47 8.18 0.35 100.00	
81	Intesa Sanpaolo Sec S.A. Capital 31,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
82	Intesa Sanpaolo Securitisation Vehicle S.r.l. Capital 60,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
83	Intesa Sanpaolo Servitia S.A. Capital 1,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
84	Intesa Sanpaolo Vita S.p.A. Capital 320,422,508.53 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	
85	Intesa Sec. 3 S.r.l. Capital 70,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
86	Intesa Sec. Npl S.p.A. Capital 129,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
87	Intesa Sec. S.p.A. Capital 100,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
88	ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
89	ISP CB Pubbico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
90	ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
91	Lunar Funding V Plc (g)	Dublin	Dublin	4	Intesa Sanpaolo	-	
92	Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	

	Name	Operating office	Registered office	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
93	Manzoni S.r.l. (c) (i) Capital 8,285,457 euro	Milano	Milano	1	Imi Investimenti	27.39	53.00
94	Mediocredito Italiano S.p.A. Capital 992,043,495 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
95	Milano Santa Giulia S.p.A. (i) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	
96	MSG Comparto Primo S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
97	MSG Comparto Secondo S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
98	MSG Residenze S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	
99	Oldequiter S.p.A. (l) Capital 30,000,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
100	PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
101	PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Vub Asset Management Spravcovska Spolocnost	100.00	
102	PBZ Leasing d.o.o. za poslove leasinga Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
103	PBZ Nekretnine d.o.o. Capital HRK 3,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
104	PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
105	Pravex Bank Public Joint-Stock Company Commercial Bank Capital UAH 968,370,561.86	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
106	Private Equity International S.A. Capital 101,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo IMI Investimenti	90.90 9.10 100.00	
107	Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
108	Recovery Property Utilisation and Services ZRT. Capital HUF 15,000,000	Budapest	Budapest	1	Cib Bank	100.00	
109	Ri. Estate S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
110	Ri. France S.a.s.u. Capital 37,000 euro	Paris	Paris	1	Ri. Investimenti	100.00	
111	Ri. Investimenti S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Risanamento Tradital	99.00 1.00 100.00	
112	Ri. Progetti S.p.A. (i) Capital 510,000 euro	Milano	Milano	1	Risanamento	100.00	
113	Ri. Rental S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
114	Risanamento Europa S.r.l. (i) Capital 100,125,050 euro	Milano	Milano	1	Risanamento	100.00	
115	Risanamento S.p.A. (i) Capital 382,301,510.57 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
116	Romulus Funding Corporation (g)	New York	New York	4	Intesa Sanpaolo	-	
117	Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
118	Setefi Services S.p.A. (formerly Setefi S.p.A.) (l) Capital 7,108,800 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
119	Società Italiana di Revisione e Fiduciaria – S.I.RE.F. S.p.A. Capital 2,600,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
120	Sviluppo Comparto 3 S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
121	T T 1 Lux S.A. - in voluntary liquidation Capital 44,571,000 euro	Luxembourg	Luxembourg	1	Manzoni	50.00	
122	Trade Receivables Investment Vehicle Sarl	Luxembourg	Luxembourg	4	Banca IMI/Duomo Funding	100.00	
123	Tradital S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
124	Vseobecna Uverova Banka a.s. Capital 430,819,063.81 euro	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
125	VUB Asset Management Sprav. Spol a.s. Capital 4,093,560 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka Eurizon Capital Privredna Banka Zagreb	40.55 50.12 9.33 100.00	

Name		Operating office	Registered office	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
126	VUB Factoring a.s. Capital 2,232,334 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	
127	VUB Leasing a.s. Capital 16,600,000 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	

(a) Type of relationship:
1 - majority of voting rights at Ordinary Shareholders' Meeting;
2 - dominant influence at Ordinary Shareholders' Meeting;
3 - agreements with other shareholders;
4 - other forms of control;
5 - unitary management as defined in Art. 26.1 of "Legislative Decree 87/92";
6 - unitary management as defined in Art. 26.2 of "Legislative Decree 87/92".

(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) The Intesa Sanpaolo Group's exposure to the variable returns generated by Manzoni equals 44.9% in consideration of the portion held by a third-party UCI in turn wholly owned by Private Equity International, and classified as an AFS investment. Based on the contents of Manzoni's Articles of Association, the vote of the majority shareholder is calculated for 1/3 of the portion actually held.

(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 1.51% of share capital.

(f) Please note that there is a put option sold/call option purchased from minority shareholders on 16.52% of ordinary shares and savings shares.

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

(h) Please note that there are put options sold to minority shareholders on 19.84% of share capital.

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

(l) Company included among discontinued operations.

Other information

Criteria for the preparation of segment reporting

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

Subsequent events

As already indicated in the Executive Summary, the Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, the exercise conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.
The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information in the context of the prudential revision process in 2016. The results thus allowed the competent authorities to assess banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.
Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) for Intesa Sanpaolo that emerged from the stress test for 2018, the final year of the simulation, came to 12.8% in the baseline scenario and 10.2% in the adverse scenario, compared to the starting point of 13% recorded as at 31 December 2015. This includes a reduction of 50 one-hundredths of a point – in both scenarios – for the move from the calculation criteria in force for 2015 to those in force for 2018.

Economic results

General aspects

As usual, a condensed reclassified income statement is prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary, 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. Any differences due to the possibility of choosing between different options provided for by IAS/IFRS or arising from the use of different methods or parameters to measure assets and liabilities are not considered, as they are deemed irrelevant. Last, please note that no intragroup relations are netted where their amount is not significant.

Breakdowns of restatements and reclassifications performed are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.

Reclassifications and aggregations are as follows:

– Dividends on shares classified as assets available for sale and as assets held for trading have been reallocated to Profits (Losses) on trading;
– the portions of Net interest income, Dividend and similar income, Net fee and commission income and Profits (Losses) on trading related to the insurance business have been recorded under a specific caption, and the effect of the adjustment of the technical reserve – with respect to the component attributable to policyholders – associated with the impairment of securities available for sale held in the portfolios of the Group's insurance companies was also attributed to this caption;
– Differentials on derivatives, classified to the trading portfolio and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
– Fair value adjustments in hedge accounting (caption 90) have been reallocated to Profits (Losses) on trading;
– Profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities have been reallocated to Profits (Losses) on trading;
– Profits (Losses) on financial assets and liabilities designated at fair value are reallocated to Profits (Losses) on trading;
– the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other operating income;
– contributions to the Bank Resolution Funds and the Deposit Guarantee Scheme, which were reallocated from other administrative expenses to other operating expenses;
– the profit realised on the sale of the Visa Europe shares, which was recognised among Profits/losses on disposal or repurchase of financial assets available for sale (caption 100b) with respect to the portion realised by the Group banks, and among Income/loss after tax from discontinued operations (caption 310) with respect to the portion realised by Setefi, was fully reclassified, gross of taxes, to Other operating income (expenses) and Taxes on income from continuing operations for the tax component. This was done to ensure a better representation of the results, in consideration of the close correlation of the aforementioned profit with the business generated for the benefit of the circuit;
– Profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
– Net impairment losses on other financial activities (caption 130 d), related to guarantees, commitments and credit derivatives, have been recognised under Net adjustments to loans;
– the reversal in time value on loans is recorded in Net interest income instead of being allocated to Net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in the absence of changes in expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
– Net impairment losses on property, equipment and intangible assets (with the exception of impairment losses on intangible assets) have been reclassified from Net adjustments to property, equipment and intangible assets – which therefore solely express adjustments – to Net impairment losses on other assets, which also includes Net impairment losses on financial assets available for sale and investments held to maturity; by contrast, impairment losses on intangible assets have been reclassified, net of the tax effects, to Impairment of goodwill and other intangible assets;
– Impairment losses on property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future, which have been reclassified from Other operating income (expenses) to Net impairment losses on other assets. Accordingly, profits and losses on disposal associated with this type of asset have been reclassified from Other operating income (expenses) to Profits (losses) on investments held to maturity and on other investments.
– Profits (losses) on disposal of investments in associates and companies subject to joint control and Profits (losses) on disposal of investments are recorded in Profits (Losses) on investments held to maturity and on other investments, after the deduction of net income from investments carried at equity which is posted in a specific caption in Operating income;
– Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;
– the effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments to and any impairment losses on financial assets and liabilities and property, equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
– Goodwill impairment and impairment losses on other intangible assets, as mentioned above, are shown, net of tax, in a specific caption amongst "non-current" income components.

Reclassified income statement

(millions of euro)

	30.06.2016	30.06.2015	Changes amount	%
Net interest income	3,686	3,904	-218	-5.6
Profits (losses) on investments carried at equity	158	54	104	
Net fee and commission income	3,524	3,716	-192	-5.2
Profits (Losses) on trading	695	976	-281	-28.8
Income from insurance business	571	625	-54	-8.6
Other operating income (expenses)	-6	-136	-130	-95.6
Operating income	**8,628**	**9,139**	**-511**	**-5.6**
Personnel expenses	-2,613	-2,558	55	2.2
Other administrative expenses	-1,233	-1,297	-64	-4.9
Adjustments to property, equipment and intangible assets	-355	-350	5	1.4
Operating costs	**-4,201**	**-4,205**	**-4**	**-0.1**
Operating margin	**4,427**	**4,934**	**-507**	**-10.3**
Net provisions for risks and charges	-113	-122	-9	-7.4
Net adjustments to loans	-1,617	-1,614	3	0.2
Net impairment losses on other assets	-56	-40	16	40.0
Profits (Losses) on investments held to maturity and on other investments	-40	66	-106	
Income (Loss) before tax from continuing operations	**2,601**	**3,224**	**-623**	**-19.3**
Taxes on income from continuing operations	-723	-1,136	-413	-36.4
Charges (net of tax) for integration and exit incentives	-51	-31	20	64.5
Effect of purchase price allocation (net of tax)	-56	-59	-3	-5.1
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	28	29	-1	-3.4
Minority interests	-92	-23	69	
Net income (loss)	**1,707**	**2,004**	**-297**	**-14.8**

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

Quarterly development of the reclassified income statement

(millions of euro)

	2016		2015			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,831	1,855	1,926	1,887	1,954	1,950
Profits (losses) on investments carried at equity	84	74	1	41	15	39
Net fee and commission income	1,848	1,676	1,878	1,748	1,941	1,775
Profits (Losses) on trading	467	228	57	1	380	596
Income from insurance business	239	332	131	241	282	343
Other operating income (expenses)	136	-142	-378	209	-59	-77
Operating income	**4,605**	**4,023**	**3,615**	**4,127**	**4,513**	**4,626**
Personnel expenses	-1,338	-1,275	-1,479	-1,249	-1,263	-1,295
Other administrative expenses	-638	-595	-791	-632	-668	-629
Adjustments to property, equipment and intangible assets	-178	-177	-200	-178	-176	-174
Operating costs	**-2,154**	**-2,047**	**-2,470**	**-2,059**	**-2,107**	**-2,098**
Operating margin	**2,451**	**1,976**	**1,145**	**2,068**	**2,406**	**2,528**
Net provisions for risks and charges	-97	-16	-55	-222	-68	-54
Net adjustments to loans	-923	-694	-923	-769	-847	-767
Net impairment losses on other assets	-36	-20	-108	-20	-31	-9
Profits (Losses) on investments held to maturity and on other investments	-35	-5	51	21	38	28
Income (Loss) before tax from continuing operations	**1,360**	**1,241**	**110**	**1,078**	**1,498**	**1,726**
Taxes on income from continuing operations	-340	-383	-60	-339	-502	-634
Charges (net of tax) for integration and exit incentives	-38	-13	-37	-15	-25	-6
Effect of purchase price allocation (net of tax)	-27	-29	-33	-27	-33	-26
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Income (Loss) after tax from discontinued operations	15	13	15	15	14	15
Minority interests	-69	-23	18	10	-12	-11
Net income (loss)	**901**	**806**	**13**	**722**	**940**	**1,064**

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

Despite the slower growth of the economy, conditioned by factors of political instability in the Eurozone and by the heightened volatility of equity prices, the Intesa Sanpaolo Group closed the first half of 2016 with a net income of 1,707 million euro, due to its revenue performance, reflecting a decline in the first quarter followed by a recovery in the second, attentive monitoring of operating expenses and stable adjustments to loans.
Net income was less than in the first half of the previous year due to the effect of lower operating income. However, net income was higher in the second quarter of 2016 than in the first.

Operating income

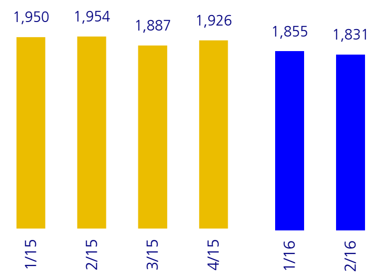
Operating income amounted to 8,628 million euro, down 5.6% compared to the first six months of 2015, primarily due to the reduction in profits on trading (-28.8%), net interest income (-5.6%) and net fee and commission income (-5.2%). Revenues increased by 14.5% in the second quarter of 2016 in comparison to the first quarter, attributable to the increase in profits on trading, fees and commissions and other operating income. In the second quarter, other operating income benefited from the income from the sale of Visa Europe, whereas in the first quarter the caption was burdened by the charges due to the banking crisis resolution fund.

Net interest income

(millions of euro)

	30.06.2016	30.06.2015	Changes	
			amount	%
Relations with customers	3,752	4,233	-481	-11.4
Securities issued	-1,675	-1,979	-304	-15.4
Differentials on hedging derivatives	279	413	-134	-32.4
Customer dealing	**2,356**	**2,667**	**-311**	**-11.7**
Financial assets held for trading	78	128	-50	-39.1
Investments held to maturity	27	26	1	3.8
Financial assets available for sale	396	426	-30	-7.0
Financial assets	**501**	**580**	**-79**	**-13.6**
Relations with banks	**29**	**-4**	**33**	
Non-performing assets	**794**	**666**	**128**	**19.2**
Other net interest income	**6**	**-5**	**11**	
Net interest income	**3,686**	**3,904**	**-218**	**-5.6**

Quarterly development Net interest income



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

The interest margin amounted to 3,686 million euro, down 5.6% compared to the same period of the previous year due to the trend in relations with customers and, to a lesser extent, the decline in interest on financial assets.
With the spread at historically very low levels, the contribution from relations with customers stood at 2,356 million euro, down 11.7% compared to the same period of 2015. The decline in interest related to relations with customers was essentially due to the further reduction of the spread, only partly offset by a recovery of intermediated volumes. Hedging derivative differentials had a negative effect, declining by 134 million euro.
Interest on financial assets decreased by 13.6%, due to the decline in interest on assets held for trading and available for sale (respectively, -50 million euro and -30 million euro).
Net interest income on the interbank market came to 29 million euro, compared to the expense of 4 million euro in the first six months of 2015, due to the reduction in interest expense on interbank funding, including the exposure to the ECB, which amounted to an average of 27.6 billion euro in the first half of 2016.

(millions of euro)

	2016		Changes	
	Second quarter	First quarter	amount	%
Relations with customers	1,874	1,878	-4	-0.2
Securities issued	-835	-840	-5	-0.6
Differentials on hedging derivatives	141	138	3	2.2
Customer dealing	**1,180**	**1,176**	**4**	**0.3**
Financial assets held for trading	36	42	-6	-14.3
Investments held to maturity	13	14	-1	-7.1
Financial assets available for sale	195	201	-6	-3.0
Financial assets	**244**	**257**	**-13**	**-5.1**
Relations with banks	**19**	**10**	**9**	**90.0**
Non-performing assets	**384**	**410**	**-26**	**-6.3**
Other net interest income	**4**	**2**	**2**	
Net interest income	**1,831**	**1,855**	**-24**	**-1.3**

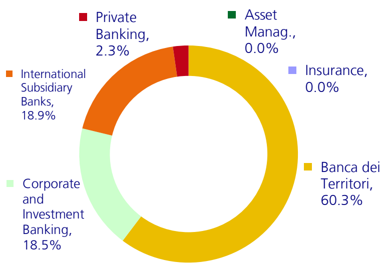
Figures restated, where necessary, considering the changes in the scope of consolidation.

In the second quarter of 2016, the interest margin stood at a level slightly below that of the first quarter of the current year, due in part to the reduced financial component.

(millions of euro)

	30.06.2016	30.06.2015	Changes amount	Changes %
Banca dei Territori	2,316	2,473	-157	-6.3
Corporate and Investment Banking	712	777	-65	-8.4
International Subsidiary Banks	728	745	-17	-2.3
Private Banking	89	98	-9	-9.2
Asset Management	-	-	-	-
Insurance	-	-	-	-
Total business areas	**3,845**	**4,093**	**-248**	**-6.1**
Corporate Centre	-159	-189	-30	-15.9
Intesa Sanpaolo Group	**3,686**	**3,904**	**-218**	**-5.6**

Business areas



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

The Banca dei Territori Division, which accounts for 60% of business area results, recorded a decline of 6.3% in net interest income due to the erosion of margins. Interest attributable to the Corporate and Investment Banking Division declined (-8.4%), primarily due to the spread and reduced contribution by Intesa Sanpaolo Bank Luxembourg. The net interest income of the international subsidiary banks decreased by 2.3%, whereas that of private banking - which has a smaller relative impact on consolidated net income - declined by 9.2%.

Profits on investments carried at equity

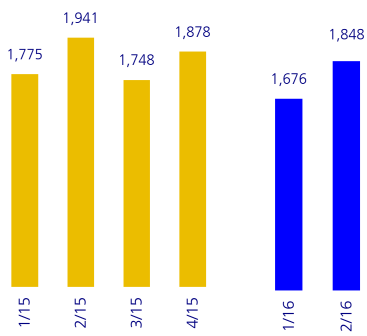
For the first six months of 2016, this aggregate totalled 158 million euro, nearly triple the 54 million euro posted for the same period of 2015 thanks to the increased contributions of companies consolidated at equity.

Net fee and commission income

(millions of euro)

	30.06.2016	30.06.2015	Changes amount	Changes %
Guarantees given / received	166	170	-4	-2.4
Collection and payment services	176	181	-5	-2.8
Current accounts	502	509	-7	-1.4
Credit and debit cards	184	182	2	1.1
Commercial banking activities	**1,028**	**1,042**	**-14**	**-1.3**
Dealing and placement of securities	244	430	-186	-43.3
Currency dealing	20	22	-2	-9.1
Portfolio management	1,005	1,104	-99	-9.0
Distribution of insurance products	689	600	89	14.8
Other	79	93	-14	-15.1
Management, dealing and consultancy activities	**2,037**	**2,249**	**-212**	**-9.4**
Other net fee and commission income	**459**	**425**	**34**	**8.0**
Net fee and commission income	**3,524**	**3,716**	**-192**	**-5.2**

Quarterly development
Net fee and commission income



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

Net fee and commission income for the half-year, which makes up approximately 41% of operating income, came to 3,524 million euro, down 5.2% compared to the same period in 2015 mainly as a result of the performance of the management and dealing activity.
Fee and commission income on commercial banking activities amounted to 1,028 million euro, down by 1.3% as a result of the moderate decline in fees and commissions on current accounts, collection and payment services and guarantees given.
Management, dealing and financial consultancy activities, which provided the greatest contribution, generated net fee and commission income of 2,037 million euro, down 9.4% compared to the first half of 2015. Conversely, there was a sharp increase in fees and commissions on insurance products (+14.8%).
The considerable commercial efforts made by the Group's distribution networks in the area of asset management products, and in particular policies with financial content, fees and commissions on which are partially included in income from insurance business, was offset by the significant decline in equity prices. This trend affected trading volumes, thereby reducing security dealing and placement commissions and completely eliminating performance fees on asset management products.
Other net fee and commission income contributed positively, with an increase of 8%.

(millions of euro)

	2016 Second quarter	First quarter	Changes amount	%
Guarantees given / received	83	83	-	-
Collection and payment services	91	85	6	7.1
Current accounts	255	247	8	3.2
Credit and debit cards	94	90	4	4.4
Commercial banking activities	**523**	**505**	**18**	**3.6**
Dealing and placement of securities	153	91	62	68.1
Currency dealing	10	10	-	-
Portfolio management	512	493	19	3.9
Distribution of insurance products	362	327	35	10.7
Other	38	41	-3	-7.3
Management, dealing and consultancy activities	**1,075**	**962**	**113**	**11.7**
Other net fee and commission income	**250**	**209**	**41**	**19.6**
Net fee and commission income	**1,848**	**1,676**	**172**	**10.3**

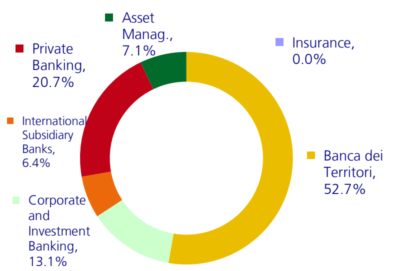
Figures restated, where necessary, considering the changes in the scope of consolidation.

In the second quarter of 2016, net fee and commission income recovered compared to the first quarter of the year, as a result of improved market conditions, which had a positive impact, above all on management, intermediation and financial consultancy activities. There was also a moderate increase in the fee and commission income generated by commercial banking activities.

(millions of euro)

	30.06.2016	30.06.2015	Changes amount	%
Banca dei Territori	1,943	2,088	-145	-6.9
Corporate and Investment Banking	483	412	71	17.2
International Subsidiary Banks	236	252	-16	-6.3
Private Banking	763	766	-3	-0.4
Asset Management	261	329	-68	-20.7
Insurance	-	-	-	-
Total business areas	**3,686**	**3,847**	**-161**	**-4.2**
Corporate Centre	-162	-131	31	23.7
Intesa Sanpaolo Group	**3,524**	**3,716**	**-192**	**-5.2**

Business areas



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

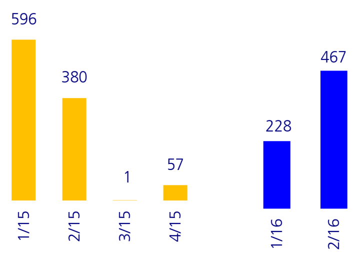
With regard to business areas, the Banca dei Territori Division, which accounts for 53% of the fee and commission income of the business units, recorded a decline (-6.9%, or -145 million euro), mainly due to fee and commission income on asset management products. Decreases were also recorded by the Asset Management Division (-20.7%), due to the zeroed incentive commissions on assets under management, only partly offset by the increase in management fees related to the development of average assets under management, and by the International Subsidiary Banks (-6.3%). Conversely, an increase was reported by Corporate and Investment Banking (+17.2%), due to the rise in fee and commission income, recorded above all in the investment banking and commercial banking sector (which includes loans, guarantees and interbank services).

Profits (Losses) on trading

(millions of euro)

	30.06.2016	30.06.2015	Changes	
			amount	%
Interest rates	32	49	-17	-34.7
Equity instruments	32	150	-118	-78.7
Currencies	171	165	6	3.6
Structured credit products	5	1	4	
Credit derivatives	13	-36	49	
Commodity derivatives	20	34	-14	-41.2
Trading result	**273**	**363**	**-90**	**-24.8**
Trading on AFS securities and financial liabilities	**422**	**613**	**-191**	**-31.2**
Profits (Losses) on trading	**695**	**976**	**-281**	**-28.8**

Quarterly development Profits (losses) on trading



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

In the first six months of 2016, trading activities yielded a profit of 695 million euro, down from the 976 million euro recognised in the first half of 2015, which had benefited from the launch of Quantitative Easing and more favourable market conditions, markedly in the first quarter, when significant capital gains were realised on portfolios of financial assets available for sale. The decrease was attributable to both trading of AFS securities and financial liabilities and, to a lesser extent, profits on trading.

(millions of euro)

	2016		Changes	
	Second quarter	First quarter	amount	%
Interest rates	-2	34	-36	
Equity instruments	56	-24	80	
Currencies	117	54	63	
Structured credit products	6	-1	7	
Credit derivatives	-4	17	-21	
Commodity derivatives	9	11	-2	-18.2
Trading result	**182**	**91**	**91**	
Trading on AFS securities and financial liabilities	**285**	**137**	**148**	
Profits (Losses) on trading	**467**	**228**	**239**	

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

There was progress in the second quarter of the current year (revenues of 467 million euro, compared to 228 million euro in the first quarter), essentially due to the collection of the dividend on the stake held in the Bank of Italy (121 million euros).

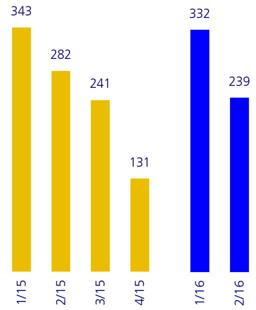
It should be noted that the sub-caption "Trading on AFS securities and financial liabilities" incorporates, in addition to dividends and proceeds on the trading of securities classified as available for sale, the effects of the measurement at fair value of financial liabilities issued associated with an assessment of creditworthiness in accordance with the fair value option.

Income from insurance business

(millions of euro)

Captions (a)	30.06.2016 Life	Non-life	Total	30.06.2015 Life	Non-life	Total	Changes amount	%
Technical margin	**39**	**39**	**78**	**-**	**25**	**25**	**53**	
Net insurance premiums (b)	4,996	148	5,144	5,965	118	6,083	-939	-15.4
Net charges for insurance claims and surrenders (c)	-4,271	-40	-4,311	-5,207	-44	-5,251	-940	-17.9
Net charges for changes in technical reserves (d)	-1,345	-	-1,345	-1,703	-	-1,703	-358	-21.0
Gains (losses) on investments pertaining to insured parties on insurance products (e)	798	-	798	1,091	-	1,091	-293	-26.9
Net fees on investment contracts (f)	116	-	116	86	-	86	30	34.9
Commission expenses on insurance contracts (g)	-263	-48	-311	-243	-31	-274	37	13.5
Other technical income and expense (h)	8	-21	-13	11	-18	-7	6	85.7
Net investment result	**577**	**20**	**597**	**603**	**23**	**626**	**-29**	**-4.6**
Operating income from investments	1,232	20	1,252	2,869	23	2,892	-1,640	-56.7
Net interest income	*995*	*4*	*999*	*1,014*	*4*	*1,018*	*-19*	*-1.9*
Dividends	*122*	*2*	*124*	*81*	*1*	*82*	*42*	*51.2*
Gains/losses on disposal	*238*	*14*	*252*	*1,189*	*17*	*1,206*	*-954*	*-79.1*
Valuation gains/losses	*-85*	*-*	*-85*	*634*	*1*	*635*	*-720*	
Portfolio management fees paid (i)	*-38*	*-*	*-38*	*-49*	*-*	*-49*	*-11*	*-22.4*
Gains (losses) on investments pertaining to insured parties	-655	-	-655	-2,266	-	-2,266	-1,611	-71.1
Insurance products (j)	*-726*	*-*	*-726*	*-965*	*-*	*-965*	*-239*	*-24.8*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-72*	*-*	*-72*	*-126*	*-*	*-126*	*-54*	*-42.9*
Investment products (l)	*143*	*-*	*143*	*-1,175*	*-*	*-1,175*	*1,318*	
Income from insurance business gross of consolidation effects	**616**	**59**	**675**	**603**	**48**	**651**	**24**	**3.7**
Consolidation effects	*-102*	*-2*	*-104*	*-25*	*-1*	*-26*	*78*	
Income from insurance business	**514**	**57**	**571**	**578**	**47**	**625**	**-54**	**-8.6**

Quarterly development Income from insurance business



Figures restated, where necessary, 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.

During the first half of 2016, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was 571 million euro, compared to the 625 million euro recorded in the same period of 2015. The life business benefited from the higher technical margin, attributable to the improved balance of premiums and charges relating to surrenders and the change in technical reserves. Conversely, the net investment result declined due to the decreased realised and unrealised gains, partly credited to the insured parties.
The non-life business recorded growth, amounting to 59 million euro compared to the profits of 48 million euro recorded in the first half of 2015. This performance was entirely due to the increase in the technical margin.

(millions of euro)

Captions (a)	**2016**		**Changes**	
	Second quarter	**First quarter**	**amount**	**%**
Technical margin	**48**	**30**	**18**	**60.0**
Net insurance premiums (b)	2,044	3,100	-1,056	-34.1
Net charges for insurance claims and surrenders (c)	-2,255	-2,056	199	9.7
Net charges for changes in technical reserves (d)	-91	-1,254	-1,163	-92.7
Gains (losses) on investments pertaining to insured parties on insurance products (e)	446	352	94	26.7
Net fees on investment contracts (f)	57	59	-2	-3.4
Commission expenses on insurance contracts (g)	-149	-162	-13	-8.0
Other technical income and expense (h)	-4	-9	-5	-55.6
Net investment result	**259**	**338**	**-79**	**-23.4**
Operating income from investments	1,162	90	1,072	
Net interest income	*516*	*483*	33	6.8
Dividends	*83*	*41*	42	
Gains/losses on disposal	*105*	*147*	-42	*-28.6*
Valuation gains/losses	*477*	*-562*	1,039	
Portfolio management fees paid (i)	*-19*	*-19*	-	-
Gains (losses) on investments pertaining to insured parties	-903	248	-1,151	
Insurance products (j)	*-394*	*-332*	62	*18.7*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-52*	*-20*	32	
Investment products (l)	*-457*	*600*	-1,057	
Income from insurance business gross of consolidation effects	**307**	**368**	**-61**	**-16.6**
Consolidation effects	-68	-36	32	*88.9*
Income from insurance business	**239**	**332**	**-93**	**-28.0**

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

For notes, see the previous table

In the second quarter of 2016, income from insurance business, inclusive of both the life and non-life businesses, was down by 28% on the first quarter of 2016, as a result of the lower net investment result and the impact of consolidation effects.

(millions of euro)

	30.06.2016				30.06.2015
	Periodic premiums	**Single premiums**	**Total**	*of which new business*	
Life insurance business	**87**	**4,910**	**4,997**	***4,910***	**5,965**
Premiums issued on traditional products	75	4,667	4,742	*4,668*	5,772
Premiums issued on unit-linked products	5	6	11	*6*	16
Premiums issued on capitalisation products	-	-	-	-	1
Premiums issued on pension funds	7	237	244	*236*	176
Non-life insurance business	**31**	**119**	**150**	***56***	**121**
Premiums issued	31	166	197	*147*	134
Change in premium reserves	-	-47	-47	*-91*	-13
Premiums ceded to reinsurers	**-2**	**-3**	**-5**	***-2***	**-4**
Net premiums from insurance products	**116**	**5,026**	**5,142**	***4,964***	**6,082**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	48	7,749	7,797	*7,752*	7,845
Total business from investment contracts	**48**	**7,749**	**7,797**	***7,752***	**7,845**
Total business	**164**	**12,775**	**12,939**	***12,716***	**13,927**

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

Business in the insurance segment reached high levels in the first half of 2016: nearly 13 billion euro in premiums, compared to approximately 14 billion euro of business written in the same period of 2015, although with a larger component of unit-linked investment contracts in 2016.
New business was 12.7 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

Other operating income (expenses)

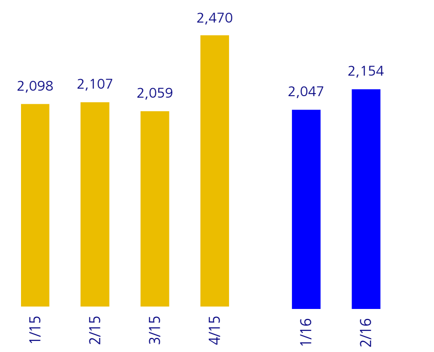
Other operating income (expenses) is a caption comprising various types of income and expenses that cannot be recognised in other operating income captions, except expense, tax and duty recoveries that have been directly deducted from the corresponding sub-captions of administrative expenses. The above item includes the expense for contributions to the resolution fund of 148 million euro, charged to all of 2016.
Other operating expenses, net of income, declined significantly compared to the first half of 2015 (-6 million euro compared to -136 million euro), thanks to the income earned in the second quarter of 2016 on the sale of Visa Europe (170 million euro).

Operating costs

(millions of euro)

	30.06.2016	30.06.2015	Changes	
			amount	%
Wages and salaries	1,793	1,756	37	2.1
Social security charges	454	449	5	1.1
Other	366	353	13	3.7
Personnel expenses	**2,613**	**2,558**	**55**	**2.2**
Information technology expenses	299	296	3	1.0
Management of real estate assets expenses	268	290	-22	-7.6
General structure costs	202	206	-4	-1.9
Professional and legal expenses	170	192	-22	-11.5
Advertising and promotional expenses	47	57	-10	-17.5
Indirect personnel costs	47	50	-3	-6.0
Other costs	167	160	7	4.4
Indirect taxes and duties	442	458	-16	-3.5
Recovery of expenses and charges	-409	-412	-3	-0.7
Administrative expenses	**1,233**	**1,297**	**-64**	**-4.9**
Property and equipment	164	173	-9	-5.2
Intangible assets	191	177	14	7.9
Adjustments	**355**	**350**	**5**	**1.4**
Operating costs	**4,201**	**4,205**	**-4**	**-0.1**

Quarterly development Operating costs



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

Operating costs amounted to 4,201 million euro, essentially stable compared to the first half of the previous year. Personnel expenses, equal to 2,613 million euro, showed an increase (+2.2%, equal to 55 million euro), mainly to be attributed to the greater incentives in support of growth. Administrative expenses amounted to 1,233 million euro, down 4.9% compared to the first six months of the previous year, thanks to the savings achieved on legal and professional fees, property management and advertising and promotional expenses.
Adjustments amounted to 355 million euro, essentially in line with the same period of 2015, but with a greater incidence of amortisation of intangible assets.
The cost/income ratio for the period was 48.7%, an increase on the 46% of the first half of 2015 due to the downtrend in revenues.

(millions of euro)

	2016		Changes	
	Second quarter	First quarter	amount	%
Wages and salaries	919	874	45	5.1
Social security charges	236	218	18	8.3
Other	183	183	-	-
Personnel expenses	**1,338**	**1,275**	**63**	**4.9**
Information technology expenses	152	147	5	3.4
Management of real estate assets expenses	134	134	-	-
General structure costs	102	100	2	2.0
Professional and legal expenses	93	77	16	20.8
Advertising and promotional expenses	27	20	7	35.0
Indirect personnel costs	27	20	7	35.0
Other costs	84	83	1	1.2
Indirect taxes and duties	231	211	20	9.5
Recovery of expenses and charges	-212	-197	15	7.6
Administrative expenses	**638**	**595**	**43**	**7.2**
Property and equipment	81	83	-2	-2.4
Intangible assets	97	94	3	3.2
Adjustments	**178**	**177**	**1**	**0.6**
Operating costs	**2,154**	**2,047**	**107**	**5.2**

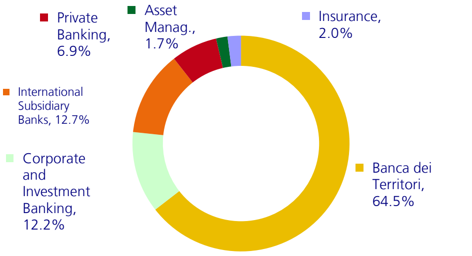
Figures restated, where necessary, considering the changes in the scope of consolidation.

At the level of quarterly analysis, operating costs in the second quarter were 5.2% higher than in the first quarter of the year. The increase may be attributed to both personnel expenses, above all as regards the variable portion of such expenses, and administrative expenses, particularly costs of services rendered by third parties and legal and professional expenses.

(millions of euro)

	30.06.2016	30.06.2015	Changes	
			amount	%
Banca dei Territori	2,429	2,419	10	0.4
Corporate and Investment Banking	460	454	6	1.3
International Subsidiary Banks	477	499	-22	-4.4
Private Banking	258	260	-2	-0.8
Asset Management	64	67	-3	-4.5
Insurance	75	73	2	2.7
Total business areas	**3,763**	**3,772**	**-9**	**-0.2**
Corporate Centre	438	433	5	1.2
Intesa Sanpaolo Group	**4,201**	**4,205**	**-4**	**-0.1**

Business areas



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

The performance of operating costs at the Group level was the result of a differentiated dynamic amongst the business units. The Banca dei Territori Division, which accounts for 64.5% of the costs of the business units, recorded a slight increase (+10 million euro or +0.4%) due to the increase in personnel expenses. Corporate and Investment Banking and Insurance also recorded growth (+1.3% and +2.7%, respectively), attributable to higher personnel and administrative expenses. Conversely, savings were reported by the International Subsidiary Banks (-22 million euro or -4.4%), due to the reduction in all expense captions, by Asset Management (-4.5%), as a result of lower personnel expenses, and by Private Banking (-0.8%), attributable to lower administrative and personnel expenses.

Operating margin

The operating margin was 4,427 million euro in the first half of 2016, down 10.3% compared to the corresponding period of 2015, as a result of the revenue performance. At the quarterly level, the operating margin recorded in the second quarter was significantly higher than in the first quarter of 2016 (+24%).

Adjustments to/write-backs on assets

Net provisions for risks and charges

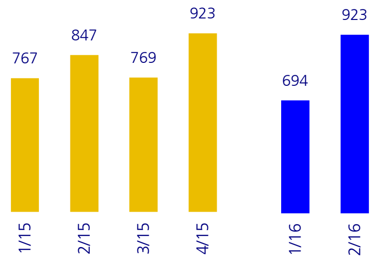
In the first six months of 2016, net provisions for risks and charges stood at 113 million euro, down compared to 122 million euro in the corresponding period of 2015.

Net adjustments to loans

(millions of euro)

	30.06.2016	30.06.2015	Changes	
			amount	%
Bad loans	-973	-811	162	20.0
Unlikely to pay	-585	-631	-46	-7.3
Past due loans	-143	-184	-41	-22.3
Performing loans	36	-40	76	
Net losses/recoveries on impairment of loans	**-1,665**	**-1,666**	**-1**	**-0.1**
Net adjustments to/recoveries on guarantees and commitments	**48**	**52**	**-4**	**-7.7**
Net adjustments to loans	**-1,617**	**-1,614**	**3**	**0.2**

Quarterly development Net adjustments to loans



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

After the marked reduction in net adjustments to loans in 2015, the amount of adjustments to loans recognised in the first half of 2016 stabilised at the levels of the same period of the previous year. The annualised cost of credit, expressed as the ratio of net adjustments to net loans, came to 90 bps, down compared to the first six months of 2015 (94 bps).
In particular, net adjustments to loans amounted to 1,617 million euro, in line with those for the first half of 2015; the increase in adjustments to bad loans was offset by lower adjustments to other non-performing loans and recoveries on the portfolio of performing loans. Those adjustments ensure adequate coverage of both performing and non-performing loans. Bad loans required total net adjustments of 973 million euro, with an average coverage ratio of 60.7%. Net impairment losses on unlikely to pay exposures, totalling 585 million euro, decreased by 7.3% compared to the same period of the previous year, with a coverage ratio of 24.7%. Net impairment losses on past due loans declined to 143 million euro (-22.3%). The coverage ratio for forborne positions within the non-performing loans category was 29% at the end of June 2016.
Lastly, within the performing loan portfolio, the generic reserve offered a stable coverage ratio for the physiological risk inherent in the portfolio of 0.6%.

(millions of euro)

	2016		Changes	
	Second quarter	First quarter	amount	%
Bad loans	-468	-505	-37	-7.3
Unlikely to pay	-412	-173	239	
Past due loans	-69	-74	-5	-6.8
Performing loans	9	27	-18	-66.7
Net losses/recoveries on impairment of loans	**-940**	**-725**	**215**	**29.7**
Net adjustments to/recoveries on guarantees and commitments	**17**	**31**	**-14**	**-45.2**
Net adjustments to loans	**-923**	**-694**	**229**	**33.0**

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

The flow of adjustments in the second quarter of 2016 exceeded that of the first quarter of 2016.

Net impairment losses on other assets
In the first six months of 2016, impairment losses on assets other than loans (financial assets available for sale, investments held to maturity, property and equipment and intangible assets) amounted to 56 million euro, compared to 40 million euro in the first half of 2015.

Profits (Losses) on investments held to maturity and on other investments
Investments held to maturity and other investments generated a loss of 40 million euro, compared to a profits of 66 million euro in the first half of 2015.

Income before tax from continuing operations
Income before tax from continuing operations came to 2,601 million euro, compared to the 3,224 million euro recorded in the same period of the previous year.

Other income and expense captions

Taxes on income from continuing operations
Current and deferred taxes came to 723 million euro, corresponding to a tax rate of 27.8%.

Charges (net of tax) for integration and exit incentives
This caption amounted to 51 million euro, of which 17 million euro attributable to the Private Banking Division, compared to the 31 million euro reported for the first six months of 2015.

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 transactions. In the first half of 2016, these costs amounted to 56 million euro, confirming the structural decline that began in previous periods.

Income (Loss) from discontinued operations (net of tax)
During the period, a profit of 28 million euro was recognised, attributable to Setefi, a subsidiary for which a sale agreement was signed.

Minority interests
The net income attributable to minority interests was -92 million euro.

Net income (loss)
As a result of the above dynamics, the Group ended the first half of 2016 with a solid net income of 1,707 million euro, reflecting an improvement in the second quarter of 2016.

Balance sheet aggregates

General aspects

A condensed balance sheet is prepared to permit a more immediate understanding of the Group's assets and liabilities. Where necessary, comparative figures are restated to account for discontinued operations and changes in the scope of consolidation. As usual, certain captions have been aggregated with respect to the model provided in Circular 262/05 of the Bank of Italy.
The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively. Any differences due to the possibility of choosing between different options provided for by IAS/IFRS or arising from the use of different methods or parameters to measure assets and liabilities are not considered, as they are deemed irrelevant. Last, please note that no intragroup relations are netted where their amount is not significant.
Breakdowns of restatements and aggregations of captions 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 of captions refer to:

– the inclusion of Cash and cash equivalents in the residual caption Other assets;
– the inclusion of Hedging derivatives and Fair value change of financial assets/liabilities in hedged portfolios in Other assets/liabilities;
– the inclusion of the technical insurance reserves reassured with third parties under Other assets;
– the aggregation in one single caption of Property and equipment and Intangible assets;
– the aggregation of Due to customers and Securities issued into one caption;
– the aggregation into one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
– the presentation of Reserves as an aggregate and net of any treasury shares.

Again, to provide a more effective presentation of the composition of aggregates, derivatives recorded in Financial assets/liabilities held for trading and Due from/Due to banks are presented on a net basis in the tables and in the relative comments.

Reclassified balance sheet

(millions of euro)

Assets	30.06.2016	31.12.2015	Changes amount	%
Financial assets held for trading	52,499	51,597	902	1.7
of which: Insurance Companies	*648*	*728*	*-80*	*-11.0*
Financial assets designated at fair value through profit and loss	57,948	53,663	4,285	8.0
of which: Insurance Companies	*56,908*	*52,519*	*4,389*	*8.4*
Financial assets available for sale	152,465	131,334	21,131	16.1
of which: Insurance Companies	*80,379*	*75,646*	*4,733*	*6.3*
Investments held to maturity	1,246	1,386	-140	-10.1
Due from banks	36,879	34,445	2,434	7.1
Loans to customers	360,240	347,333	12,907	3.7
Investments in associates and companies subject to joint control	1,400	1,383	17	1.2
Property, equipment and intangible assets	12,116	12,536	-420	-3.4
Tax assets	14,398	15,007	-609	-4.1
Non-current assets held for sale and discontinued operations	966	3,431	-2,465	-71.8
Other assets	27,135	24,453	2,682	11.0
Total Assets	**717,292**	**676,568**	**40,724**	**6.0**

Liabilities and Shareholders' Equity	30.06.2016	31.12.2015	Changes amount	%
Due to banks	67,656	59,327	8,329	14.0
Due to customers and securities issued	379,643	365,419	14,224	3.9
of which: Insurance Companies	*1,362*	*1,310*	*52*	*4.0*
Financial liabilities held for trading	49,340	43,522	5,818	13.4
of which: Insurance Companies	*104*	*144*	*-40*	*-27.8*
Financial liabilities designated at fair value through profit and loss	51,360	47,022	4,338	9.2
of which: Insurance Companies	*51,360*	*47,022*	*4,338*	*9.2*
Tax liabilities	2,186	2,351	-165	-7.0
Liabilities associated with non-current assets held for sale and discontinued operations	336	116	220	
Other liabilities	26,798	20,773	6,025	29.0
Technical reserves	86,813	84,616	2,197	2.6
Allowances for specific purpose	4,987	4,829	158	3.3
Share capital	8,732	8,732	-	-
Reserves	36,830	36,446	384	1.1
Valuation reserves	-1,860	-1,018	842	82.7
Equity instruments	2,118	877	1,241	
Minority interests	646	817	-171	-20.9
Net income (loss)	1,707	2,739	-1,032	-37.7
Total Liabilities and Shareholders' Equity	**717,292**	**676,568**	**40,724**	**6.0**

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

Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	2016		2015			
	30/6	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading	52,499	54,786	51,597	52,391	51,996	62,257
of which: Insurance Companies	*648*	*721*	*728*	*775*	*754*	*823*
Financial assets designated at fair value through profit and loss	57,948	54,480	53,663	49,998	49,407	48,620
of which: Insurance Companies	*56,908*	*53,358*	*52,519*	*48,877*	*48,203*	*47,361*
Financial assets available for sale	152,465	142,816	131,334	133,353	135,430	138,066
of which: Insurance Companies	*80,379*	*78,393*	*75,646*	*72,548*	*71,463*	*74,813*
Investments held to maturity	1,246	1,317	1,386	1,379	1,426	1,470
Due from banks	36,879	33,540	34,445	33,994	31,147	34,942
Loans to customers	360,240	358,478	347,333	342,509	341,634	343,606
Investments in associates and companies subject to joint control	1,400	1,407	1,383	1,448	1,413	1,596
Property, equipment and intangible assets	12,116	12,114	12,536	12,112	12,185	12,259
Tax assets	14,398	14,583	15,007	14,809	14,946	14,366
Non-current assets held for sale and discontinued operations	966	3,545	3,431	3,294	3,206	3,134
Other assets	27,135	23,297	24,453	23,044	25,720	23,169
Total Assets	**717,292**	**700,363**	**676,568**	**668,331**	**668,510**	**683,485**

Liabilities and Shareholders' Equity	2016		2015			
	30/6	31/3	31/12	30/9	30/6	31/3
Due to banks	67,656	60,343	59,327	64,118	62,493	58,312
Due to customers and securities issued	379,643	373,224	365,419	352,998	358,870	364,309
of which: Insurance Companies	*1,362*	*1,361*	*1,310*	*1,460*	*1,319*	*1,303*
Financial liabilities held for trading	49,340	48,936	43,522	44,189	43,221	54,398
of which: Insurance Companies	*104*	*95*	*144*	*169*	*138*	*234*
Financial liabilities designated at fair value through profit and loss	51,360	48,031	47,022	43,657	43,451	42,088
of which: Insurance Companies	*51,360*	*48,031*	*47,022*	*43,657*	*43,451*	*42,088*
Tax liabilities	2,186	2,564	2,351	3,386	2,967	3,354
Liabilities associated with non-current assets held for sale and discontinued operations	336	350	116	101	121	98
Other liabilities	26,798	25,181	20,773	25,013	26,825	25,983
Technical reserves	86,813	86,664	84,616	81,965	79,645	82,925
Allowances for specific purpose	4,987	4,792	4,829	4,698	4,588	5,276
Share capital	8,732	8,732	8,732	8,730	8,725	8,725
Reserves	36,830	39,184	36,446	36,435	36,415	37,545
Valuation reserves	-1,860	-1,387	-1,018	-1,183	-1,449	-1,147
Equity instruments	2,118	2,118	877	875	-	-
Minority interests	646	825	817	623	634	555
Net income (loss)	1,707	806	2,739	2,726	2,004	1,064
Total Liabilities and Shareholders' Equity	**717,292**	**700,363**	**676,568**	**668,331**	**668,510**	**683,485**

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

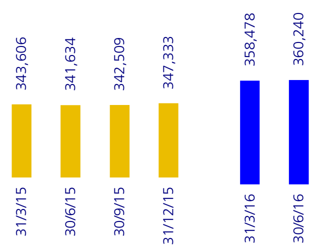
In the first half of 2016, Intesa Sanpaolo's consolidated assets and liabilities increased by 6%. With regard to assets, growth was posted in both loans to customers and total financial assets. In detail, financial assets available for sale increased by 21.1 billion euro, financial assets designated at fair value through profit and loss by 4.3 billion euro and financial assets held for trading by 0.9 billion euro; loans to customers increased by 12.9 billion euro, due in part to the recovery of commercial banking loans, and loans to banking counterparties were up 2.4 billion euro. Liabilities showed increases in almost all components: +14.2 billion euro for amounts due to customers and securities issued, +8.3 billion euro for amounts due to banks, +6 billion euro for other liabilities, +5.8 billion euro for financial liabilities held for trading, +4.3 billion euro for financial liabilities designated at fair value through profit or loss attributable to insurance companies and +2.2 billion euro for the technical reserves of the Group's insurance companies.

Loans to customers

(millions of euro)

	30.06.2016	% breakdown	31.12.2015	% breakdown	Changes amount	Changes %
Current accounts	24,136	6.7	24,535	7.1	-399	-1.6
Mortgages	141,763	39.3	138,036	39.7	3,727	2.7
Advances and other loans	122,120	33.9	116,843	33.6	5,277	4.5
Commercial banking loans	**288,019**	**79.9**	**279,414**	**80.4**	**8,605**	**3.1**
Repurchase agreements	**25,214**	**7.0**	**21,449**	**6.2**	**3,765**	**17.6**
Loans represented by securities	**14,655**	**4.1**	**13,384**	**3.9**	**1,271**	**9.5**
Non-performing loans	**32,352**	**9.0**	**33,086**	**9.5**	**-734**	**-2.2**
Loans to customers	**360,240**	**100.0**	**347,333**	**100.0**	**12,907**	**3.7**

Quarterly development Loans to customers



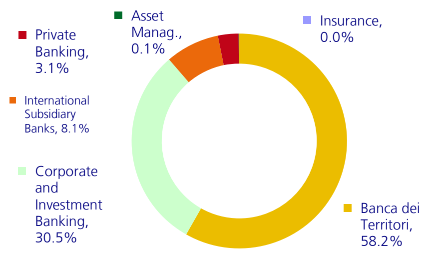
Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 30 June 2016, Intesa Sanpaolo Group loans to customers surpassed 360 billion euro, up 3.7% compared to the end of the previous year.
The positive performance of loans was due to both the rise in commercial banking loans (+8.6 billion euro or +3.1%) and reverse repurchase agreements, which rose by 3.8 billion euro (+17.6%). The recovery in commercial banking loans, which benefited from the improved outlook for the economy, was driven by advances and other loans (+5.3 billion euro or +4.5%) and mortgages, which increased by 3.7 billion euro (+2.7%). In the presence of advantageous market conditions for customers, credit was directed above all to retail customers in the form of consumer credit products and mortgage loans for home purchases, in most cases secured by collateral.
In the domestic medium-/long-term loan market, in the first half of 2016 disbursements to households (including the small business accounts having similar needs to family businesses) were approximately 10 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 6.9 billion euro. During the same period, medium-/long-term disbursements to segments included in the scope of the Corporate Division amounted to 5.2 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy came to approximately 23 billion euro. On the whole, medium-/long-term disbursements for the Group during the first half of 2016 surpassed 26 billion euro.
As at 30 June 2016, the Group's share of the domestic market (calculated on the harmonised time-series established for countries in the Eurozone) was estimated at 15.3% for total loans. The estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figure for the end of June is not yet available.

(millions of euro)

	30.06.2016	31.12.2015	Changes amount	Changes %
Banca dei Territori	187,302	184,522	2,780	1.5
Corporate and Investment Banking	97,930	89,691	8,239	9.2
International Subsidiary Banks	26,207	25,818	389	1.5
Private Banking	9,817	8,971	846	9.4
Asset Management	270	372	-102	-27.4
Insurance	29	24	5	20.8
Total business areas	**321,555**	**309,398**	**12,157**	**3.9**
Corporate Centre	38,685	37,935	750	2.0
Intesa Sanpaolo Group	**360,240**	**347,333**	**12,907**	**3.7**

Business areas



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

In the analysis of loans by business area, the Banca dei Territori Division, which accounts for approximately 60% of the aggregate of the Group's business areas, recorded an increase (+2.8 billion euro, or +1.5%) compared to the end of the previous year, due essentially to loans to retail customers (households and personal customer segment), above all in the medium-/long-term component. The most significant contribution in absolute terms was provided by Corporate and Investment Banking Division (+8.2 billion euro or +9.2%), driven by the increased business in repurchase agreements and collateral by Banca IMI, and by the new financing operations undertaken by the Luxembourg subsidiary. There was also growth of Private Banking Loans, which increased by 9.4% as a result of the increase in both lending to customers and repurchase agreements with institutional counterparties, and in International Subsidiary Bank loans (+1.5%), primarily loans disbursed by the subsidiaries operating in Slovakia and Croatia. Conversely, there were decreases in Asset Management loans (-27.4%), the overall volume of which is small. The positive trend in Corporate Centre loans (+2%) is largely attributable to increased reverse repurchase agreement transactions with Cassa di Compensazione e Garanzia.

Loans to customers: credit quality

(millions of euro)

	30.06.2016		31.12.2015		Change
	Net exposure	% breakdown	Net exposure	% breakdown	Net exposure
Bad loans	15,159	4.2	14,973	4.3	186
Unlikely to pay	16,560	4.6	17,091	4.9	-531
Past due loans	633	0.2	1,022	0.3	-389
Non-performing loans	**32,352**	**9.0**	**33,086**	**9.5**	**-734**
of which forborne	***8,267***		**7,705**		**562**
Performing loans	313,233	86.9	300,863	86.6	12,370
of which forborne	*7,281*		*7,699*		*-418*
Loans represented by performing securities	14,655	4.1	13,384	3.9	1,271
of which forborne	*118*		*135*		*-17*
Loans to customers	**360,240**	**100.0**	**347,333**	**100.0**	**12,907**

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

As at 30 June 2016, the Group's non-performing loans, net of adjustments, came to 32.4 billion euro, below the levels of 2015 (-2.2%). While non-performing loans decreased as a percentage of total loans to customers at 9%, the NPL cash coverage ratio was 47.3%.
In further detail, bad loans came to 15.2 billion euro, net of adjustments, in the first half of 2016, up 1.2% from the beginning of the year, and represented 4.2% of total loans (4.3% at the end of 2015). During the same period, the coverage ratio was 60.7% (61.8% in December 2015). Loans included in the unlikely to pay category amounted to 16.6 billion euro, down by 3.1%, accounting for 4.6% of total loans to customers, with a coverage ratio of 24.7%. Past due loans totalled 633 million euro, down 38.1% compared to the beginning of the year, with a coverage ratio of 18.5%. Forborne exposures are generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority with the aim of harmonising the classification of the definitions of non-performing loans and forbearance practices (renegotiations for the borrower's financial difficulties) at the European level: within the non-performing loan category, they amounted to 8.3 billion euro, with an average coverage ratio of 29%, whereas those in the performing loan category were slightly lower (7.3 billion euro).
The coverage ratio of performing loans was 0.6%.

Customer financial assets

(millions of euro)

	30.06.2016		31.12.2015		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	386,757	46.0	372,200	44.2	14,557	3.9
Direct deposits from insurance business and technical reserves	139,535	16.6	132,948	15.8	6,587	5.0
Indirect customer deposits	452,486	53.8	468,425	55.6	-15,939	-3.4
Netting [(a)]	-138,173	-16.4	-131,638	-15.6	6,535	5.0
Customer financial assets	**840,605**	**100.0**	**841,935**	**100.0**	**-1,330**	**-0.2**

Figures restated, where necessary, 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 and technical reserves).

As at 30 June 2016, customer financial assets amounted to approximately 841 billion euro, down 0.2% compared to the beginning of the year as a result of the negative performance of indirect customer deposits, which were penalised by the extreme volatility of financial markets in the first two months of the year and at the end of the half-year. The decline in financial assets was offset by the positive performances of direct deposits from both banking business, up by 14.6 billion euro (+3.9%), and from insurance business, up by 6.6 billion euro (+5%).

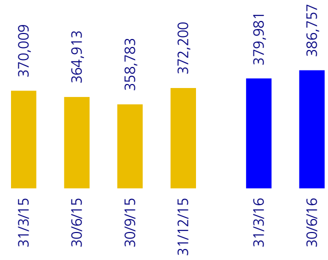
Direct deposits from banking business

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

(millions of euro)

	30.06.2016		31.12.2015		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	230,338	59.6	225,340	60.6	4,998	2.2
Repurchase agreements and securities lending	30,985	8.0	20,416	5.5	10,569	51.8
Bonds	84,832	21.9	87,147	23.4	-2,315	-2.7
of which designated at fair value (*)	-	-	-	-	-	-
Certificates of deposit	4,551	1.2	6,076	1.6	-1,525	-25.1
Subordinated liabilities	14,452	3.7	13,336	3.6	1,116	8.4
Other deposits	21,599	5.6	19,885	5.3	1,714	8.6
of which designated at fair value (**)	*8,476*	*2.2*	*8,091*	*2.2*	*385*	*4.8*
Direct deposits from banking business	**386,757**	**100.0**	**372,200**	**100.0**	**14,557**	**3.9**

Quarterly development Direct deposits from banking business



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

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

(**) Figures included in the Balance sheet under Financial liabilities held for trading.

The total of direct deposits from banking business, nearly 387 billion euro, was up (+3.9%) compared to the end of December 2015, with diverging performances by the main deposit types.

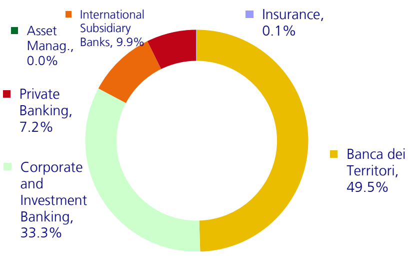
The increase in direct deposits was primarily the result of the sharp rise in repurchase agreements (+10.6 billion euro or +51.8%) and the increase in current accounts and deposits (+5 billion euro or +2.2%) due to the positive performance of the demand component, attributable in part to new customers and in part to the maturity of savings deposits. There were also increases in other deposits (+1.7 billion euro or +8.6%), the growth of which is primarily attributable to business in commercial paper and capital protected certificates issued by Banca IMI and designated at fair value through profit and loss, and subordinated liabilities (+1.1 billion euro or +8.4%). Conversely there was a downtrend - already observed in the previous year - in bonds (-2.3 billion euro during the half-year, or -2.7%), and in certificates of deposit (-1.5 billion euro, or -25.1%), to be attributed to the operations of international branches.

At the end of June 2016, the market share of the Group's direct deposits on the harmonised domestic market, consisting of deposits and bonds, according to the ECB definition, was estimated to have increased by 16%. As already described above in reference to loans, this estimate is based on figures from the sample deriving from the ten-day report produced by the Bank of Italy.

(millions of euro)

	30.06.2016	31.12.2015	Changes	
			amount	%
Banca dei Territori	163,740	159,854	3,886	2.4
Corporate and Investment Banking	110,152	109,915	237	0.2
International Subsidiary Banks	32,807	32,456	351	1.1
Private Banking	23,745	20,922	2,823	13.5
Asset Management	8	9	-1	-11.1
Insurance	208	196	12	6.1
Total business areas	**330,660**	**323,352**	**7,308**	**2.3**
Corporate Centre	56,097	48,848	7,249	14.8
Intesa Sanpaolo Group	**386,757**	**372,200**	**14,557**	**3.9**

Business areas



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

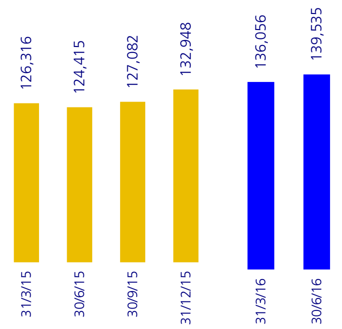
The breakdown by Group business areas shows that the direct deposits of the Banca dei Territori Division, which accounts for one-half of the aggregate attributable to the Group's total business areas, increased by 2.4% compared to the end of December 2015, due to the increase in cash held in deposits by retail and corporate customers. Corporate and Investment Banking was essentially stable (+0.2%): the positive performances of the funding of Banca IMI and the securities issued of Intesa Sanpaolo Bank Luxembourg fully offset the decline in amounts due to customers of the departments International Network & Global Industries, Financial Institutions and Corporate & Public Finance. There were also improvements in the funding of Private Banking (+13.5%), primarily as a result of current account deposits, and of the International Subsidiary Banks (+1.1%), in the securities issued segment. The increase reported by the Corporate Centre (+14.8%) may be attributed to the growth of repurchase agreement transactions with institutional counterparties.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.06.2016	% breakdown	31.12.2015	% breakdown	Changes amount	Changes %
Financial liabilities of the insurance business designated at fair value (*)	**51,360**	**36.8**	**47,022**	**35.4**	**4,338**	**9.2**
Index-linked products	*48*	*-*	*276*	*0.2*	*-228*	*-82.6*
Unit-linked products	*51,312*	*36.8*	*46,746*	*35.2*	*4,566*	*9.8*
Technical reserves	**86,813**	**62.2**	**84,616**	**63.6**	**2,197**	**2.6**
Life business	86,266	61.8	84,112	63.2	2,154	2.6
Mathematical reserves	*73,597*	*52.7*	*72,415*	*54.4*	*1,182*	*1.6*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*5,269*	*3.8*	*5,300*	*4.0*	*-31*	*-0.6*
Other reserves	*7,400*	*5.3*	*6,397*	*4.8*	*1,003*	*15.7*
Non-life business	547	0.4	504	0.4	43	8.5
Other insurance deposits (***)	**1,362**	**1.0**	**1,310**	**1.0**	**52**	**4.0**
Direct deposits from insurance business and technical reserves	**139,535**	**100.0**	**132,948**	**100.0**	**6,587**	**5.0**

Quarterly development
Direct insurance deposits and technical reservese



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

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

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

(***) Figures included in the Balance sheet under Due to customers and securities issued.

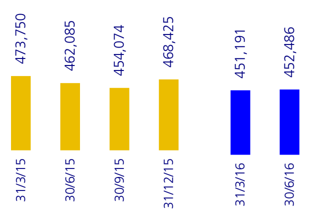
Direct deposits from insurance business came to 139.5 billion euro at the end of June 2016, up 5% compared to 31 December 2015. Financial liabilities of the insurance business designated at fair value grew by 4.3 billion euro (+9.2%), thanks to the contribution from unit-linked products. Technical reserves, which represent the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, increased by 2.6% compared to the beginning of the year, due to the increase in mathematical and other reserves correlated to the increase in premiums.

Indirect customer deposits

(millions of euro)

	30.06.2016	% breakdown	31.12.2015	% breakdown	Changes amount	Changes %
Mutual funds [(a)]	101,696	22.5	103,876	22.2	-2,180	-2.1
Open-ended pension funds and individual pension plans	6,353	1.4	6,258	1.3	95	1.5
Portfolio management [(b)]	55,642	12.3	59,582	12.7	-3,940	-6.6
Life technical reserves and financial liabilities	127,028	28.1	122,700	26.2	4,328	3.5
Relations with institutional customers	10,607	2.3	10,098	2.2	509	5.0
Assets under management	**301,326**	**66.6**	**302,514**	**64.6**	**-1,188**	**-0.4**
Assets under administration and in custody	**151,160**	**33.4**	**165,911**	**35.4**	**-14,751**	**-8.9**
Indirect customer deposits	**452,486**	**100.0**	**468,425**	**100.0**	**-15,939**	**-3.4**

Quarterly development
Indirect deposits



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

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

(b) As at 30 June 2016 the entry does not include stocks of unit-linked policies of Intesa Sanpaolo Vita, the value of which is included in the technical reserves and financial insurance liabilities. Relative data as at 31.12.2015 were restated consistently.

As at 30 June 2016, indirect customer deposits exceeded 452 billion euro, down 3.4% compared to the beginning of the year, affected by the decline in prices that reduced the value of securities under management and administration. During the half-year asset management stabilised, in a manner closely correlated with investors' willingness to continue to maintain an adequate liquidity profile on their current accounts, in the expectation that they will be able to move into financial investments as soon as a price recovery takes shape.
Asset management, which accounts for two-thirds of the total aggregate, declined by 1.2 billion euro in the first six months of the year (-0.4%), in relation to the negative performance of the markets, which outweighed the net inflows achieved by the distribution networks. There were decreases in portfolio management schemes (-3.9 billion euro or -6.6%) and mutual funds (-2.2 billion euro or -2.1%). There were increases in life policies, the amounts of which rose by 4.3 billion euro (+3.5%), relations with institutional customers (+0.5 billion euro or +5%), and collective and individual pension forms, up by 0.1 billion euro (+1.5%). In the insurance business, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 12.7 billion euro for the half-year.
Assets under administration decreased sharply (-14.8 billion euro, or -8.9%), due to the heightened market volatility, which had an impact on securities prices and resulted in a decline in operations by both institutional operators and retail customers.

Financial assets and liabilities

(millions of euro)

	30.06.2016		31.12.2015		Changes	
		of which Insurance Companies		*of which Insurance Companies*	**amount**	**%**
Financial assets held for trading	52,499	*648*	51,597	*728*	902	1.7
of which derivatives at fair value	*34,982*	*23*	*30,894*	*4*	*4,088*	*13.2*
Financial assets designated at fair value through profit and loss	57,948	*56,908*	53,663	*52,519*	4,285	8.0
Financial assets available for sale	152,465	*80,379*	131,334	*75,646*	21,131	16.1
Investments held to maturity	1,246		1,386		-140	-10.1
Total financial assets	**264,158**	***137,935***	**237,980**	***128,893***	**26,178**	**11.0**
Financial liabilities held for trading (*)	**-40,864**	***-104***	**-35,431**	***-144***	**5,433**	**15.3**
of which derivatives at fair value	*-36,229*	*-104*	*-31,715*	*-144*	*4,514*	*14.2*

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

(*) The amount of the item does not include capital protected certificates which are included in the direct customer deposits table.

The table above illustrates the breakdown of financial assets and the financial liabilities held for trading. Financial liabilities designated at fair value, referring to insurance business and capital-protected certificates, are not represented as these are included in the direct deposits aggregates.
Total financial assets rose by 11% as a result of increases in all components except investments held to maturity. Financial assets available for sale showed a significant increase of 21.1 billion euro (+16.1%), over one-half of which was attributable to the Parent Company. Financial assets designated at fair value through profit and loss also recorded an increase (+4.3 billion euro, or 8%), entirely attributable to equities and units of UCI attributable to insurance companies. The increase in financial assets held for trading (+0.9 billion euro) was exclusively due to trading derivatives (trading derivatives included among liabilities also increased). Financial liabilities held for trading also increased in parallel during the half-year (+5.4 billion euro or +15.3%).

Net financial assets held for trading and financial assets designated at fair value through profit and loss

(millions of euro)

	30.06.2016		31.12.2015		Changes	
		of which Insurance Companies		*of which Insurance Companies*	**amount**	**%**
Bonds and other debt securities held for trading and designated at fair value through profit and loss	20,457	*4,134*	22,925	*4,080*	-2,468	-10.8
of which designated at fair value (fair value option)	*4,785*	*3,880*	*4,817*	*3,795*	*-32*	*-0.7*
Equities and quotas of UCI held for trading and designated at fair value through profit and loss	54,539	*52,936*	50,771	*48,500*	3,768	7.4
of which designated at fair value (fair value option)	*52,694*	*52,565*	*48,176*	*48,061*	*4,518*	*9.4*
Other assets designated at fair value through profit and loss	469	*463*	670	*663*	-201	-30.0
Securities, assets held for trading and financial assets designated at fair value through profit and loss	**75,465**	***57,533***	**74,366**	***53,243***	**1,099**	**1.5**
Financial liabilities held for trading (*)	**-4,635**	-	**-3,716**	-	**919**	**24.7**
Net value of financial derivatives	-1,221	*-80*	-750	*-129*	471	62.8
Net value of credit derivatives	-26	*-1*	-71	*-11*	-45	-63.4
Net value of trading derivatives	**-1,247**	***-81***	**-821**	***-140***	**426**	**51.9**
Financial assets / liabilities, net	**69,583**	***57,452***	**69,829**	***53,103***	**-246**	**-0.4**

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

(*) The amount of the item does not include capital protected certificates which are included in the direct customer deposits table.

Financial assets held for trading, net of the associated liabilities, and financial assets designated at fair value through profit and loss, exceeded 69 billion euro, essentially stable compared to the end of 2015. In detail, on the assets side, there was an increase in the volume of equities and units of UCI, partly offset by the decline in bonds and debt securities, while on the liability side there was an increase in financial liabilities held for trading and in the net value of trading derivatives.

Financial assets available for sale

(millions of euro)

	30.06.2016		31.12.2015		Changes	
		of which Insurance Companies		*of which Insurance Companies*	amount	%
Bonds and other debt securities	137,059	*70,666*	117,355	*67,051*	19,704	16.8
Equities and quotas of UCI	15,364	*9,713*	13,935	*8,595*	1,429	10.3
Securities available for sale	**152,423**	***80,379***	**131,290**	***75,646***	**21,133**	**16.1**
Loans available for sale	**42**	-	**44**	-	**-2**	**-4.5**
Financial assets available for sale	**152,465**	***80,379***	**131,334**	***75,646***	**21,131**	**16.1**

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

Financial assets available for sale amounted to over 152 billion euro, up 16.1% compared to the figure recorded as at 31 December 2015.
This caption consists primarily of bonds and other debt securities not held for trading, with an increase of 16.8% attributable above all to Parent Company and, to a lesser extent, to the insurance companies and Banca IMI. The least significant component, composed of equities and units of UCI, presented an increase of 10.3%. Financial assets available for sale are measured at fair value with a balancing entry in the specific shareholders' equity reserve.

Financial instrument reclassification

The table below shows the stock of securities subject to reclassification, as permitted by the amendments to IAS 39 made in October 2008, included in the portfolio as at 30 June 2016, together with the effects on the income statement and shareholders' equity reserves of the transfer from designation at fair value to measurement at amortised cost or from designation at fair value through profit and loss to fair value through shareholders' equity.

(millions of euro)

Type of financial instrument	Previous portfolio	New portfolio	Book value at 30.06.2016	Fair value at 30.06.2016	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	Financial assets held for trading	Loans	485	453	-14	3	-	4
Debt securities	Financial assets available for sale	Loans	5,362	4,457	55	60	276	55
Loans	Financial assets available for sale	Loans	13	13	41	63	276	59
TOTAL			**5,860**	**4,923**	**82**	**126**	**552**	**118**

Had the Group not reclassified the above financial assets, a total of 235 million euro in negative mark-to-market income components and about 4 million euro in other positive components would have been recognised during the first six months. No reclassifications were made during the period.

Net interbank position

The net interbank position as at 30 June 2016 came to a negative 30.8 billion euro, an increase on the figure recorded at the end of 2015 (-24.9 billion euro), as a result of an increase in interbank debt that exceeded the increase in loans. The liability side was affected by participation in the new TLTRO 2 refinancing operations, which brought the Group's total exposure to the ECB to 36 billion euro as at 30 June 2016.

Exposure to sovereign risk by country of residence of the borrower

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk.

(millions of euro)

	DEBT SECURITIES							LOANS
	BANKING GROUP					INSURANCE COMPANIES (**)	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading (*)			
EU Countries	**6,918**	**53,840**	**960**	**628**	**4,558**	**56,663**	**123,567**	**18,100**
Austria	-	-	3	-	-26	3	-20	-
Belgium	-	1,740	-	-	-22	10	1,728	-
Bulgaria	-	-	-	-	-	57	57	-
Croatia	96	141	2	628	61	57	985	1,019
Cyprus	-	-	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-	-	22
Denmark	-	18	-	-	18	-	36	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	83	-	-	-7	10	86	7
France	154	5,688	-	-	444	148	6,434	14
Germany	-	3,344	-	-	840	1,098	5,282	-
Greece	-	-	-	-	-	-	-	-
Hungary	36	499	-	-	87	37	659	169
Ireland	-	284	-	-	-4	100	380	-
Italy	6,330	28,798	355	-	2,471	53,673	91,627	16,135
Latvia	-	5	-	-	-	-	5	53
Lithuania	-	58	-	-	-	-	58	-
Luxembourg	-	-	-	-	-	-	-	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	755	-	-	343	133	1,231	-
Poland	32	56	-	-	-	19	107	-
Portugal	17	-	-	-	-	-	17	25
Romania	-	184	-	-	1	131	316	2
Slovakia	-	397	600	-	12	-	1,009	134
Slovenia	-	225	-	-	-	8	233	176
Spain	253	11,565	-	-	145	1,179	13,142	344
Sweden	-	-	-	-	109	-	109	-
United Kingdom	-	-	-	-	86	-	86	-
North African Countries	**-**	**1,321**	**-**	**-**	**-**	**-**	**1,321**	**-**
Algeria	-	-	-	-	-	-	-	-
Egypt	-	1,321	-	-	-	-	1,321	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**814**	**-**	**814**	**-**

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

(**) Debt securities of insurance companies are classified almost entirely to the available-for-sale portfolio.

As illustrated in the table, the exposure to Italian government securities totalled approximately 92 billion euro (approximately 88 billion euro at the end of 2015), in addition to around 16 billion euro represented by loans (approximately 17 billion euro at the end of 2015). With regard to exposure towards EU countries, in the first half of 2016 the Group invested in Spanish government bonds, bringing the total exposure towards this country from approximately 7 billion euro in December 2015 to approximately 13 billion euro.

Shareholders' equity

As at 30 June 2016, the Group’s shareholders’ equity, including net income for the period, came to 47,527 million euro compared to the 47,776 million euro at the end of the previous year. The decrease in shareholders' equity was primarily due to the distribution in May of the dividend of 2.4 billion euro and to the decrease in valuation reserves (-0.8 billion euro), only partly offset by the net income for the half-year (1.7 billion euro) and the issue of the new AT1 equity instrument (1.2 billion euro). No changes in share capital occurred during the first half of the year.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2015	Change in the period	Valuation reserves as at 30.06.2016	
				% breakdown
Financial assets available for sale	899	-198	701	-37.7
of which: Insurance Companies	*682*	*-5*	*677*	*-36.4*
Property and equipment	-	-	-	-
Cash flow hedges	-1,145	-216	-1,361	73.2
Legally-required revaluations	352	-2	350	-18.8
Other	-1,124	-426	-1,550	83.3
Valuation reserves	**-1,018**	**-842**	**-1,860**	**100.0**

As at 30 June 2016, the negative balance of the Group's valuation reserves came to -1,860 million euro, marking a deterioration compared to the end of December 2015 (-1,018 million euro). Performance for the period was affected by nearly all components: other reserves (-426 million euro), cash flow hedge reserves (-216 million euro), and reserves for financial assets available for sale (-198 million euro). The change recorded in the caption "Other reserves" is largely to be attributed to the reserve for actuarial gains or losses, due to the change in the discount rate on the basis of interest rate performance during the half-year.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	**30.06.2016**	**31.12.2015**
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,327	36,908
Additional Tier 1 capital (AT1) net of regulatory adjustments	3,433	2,302
TIER 1 CAPITAL	**39,760**	**39,210**
Tier 2 capital net of regulatory adjustments	8,804	8,089
TOTAL OWN FUNDS	**48,564**	**47,299**
Risk-weighted assets		
Credit and counterparty risks	246,664	245,793
Market and settlement risk	17,477	16,582
Operational risks	21,117	20,653
Other specific risks (a)	1,428	1,291
RISK-WEIGHTED ASSETS	**286,686**	**284,319**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.7%	13.0%
Tier 1 capital ratio	13.9%	13.8%
Total capital ratio	16.9%	16.6%

[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 2016 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 Bank of Italy Circulars.
Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions (i.e. grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (over a period of eight years).
Accordingly, the prudential ratios as at 30 June 2016 take account of the adjustments envisaged by the transitional provisions for 2016.
As at 30 June 2016, total Own Funds came to 48,564 million euro, against risk-weighted assets of 286,686 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
In January 2016 Intesa Sanpaolo launched a second Additional Tier 1 (AT1) issue of 1.25 billion euro, targeted at the international markets (a first AT1 issue of 1 billion dollars had been launched in September 2015). This issue has characteristics in line with the

provisions of CRD IV and the CRR, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 19 January and 19 July of each year, with first payment on 19 July 2016, is equal to 7.00% per annum. If the early redemption option is not exercised on 19 January 2021, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged in the regulations applicable to the Additional Tier 1 issues, coupon payment is discretionary and subject to certain limitations.
In addition, on 22 April 2016, Intesa Sanpaolo received authorisation for the early repayment of an AT1 instrument with a nominal value of approximately 478 million euro. The subordinated instrument in question, issued in October 2010 and subject to grandfathering following the introduction of the Basel 3 framework, since it did not comply with the new regulations, called for the possibility of early repayment from 1 June 2016.
It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 30 June 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.
Based on the foregoing, the Total capital ratio stood at 16.9%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.7%.
The ECB's final decision concerning the capital requirements to be observed with effect from 1 January 2016, in light of the results of the Supervisory Review and Evaluation Process (SREP), imposed a consolidated capital requirement on Intesa Sanpaolo of 9.5% in terms of the CET1 ratio.
Finally, on the basis of Article 467 (2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its Own Funds. The effect on Common Equity Tier 1 capital as at 30 June 2016 was 4 basis points positive.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.06.2016	31.12.2015
Group Shareholders' equity	47,527	47,776
Minority interests	646	817
Shareholders' equity as per the Balance Sheet	**48,173**	**48,593**
Dividends and other expected charges (a)	-	-2,383
Shareholders' equity following presumed distribution to shareholders	**48,173**	**46,210**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Other equity instruments eligible for inclusion in AT1	-2,121	-871
- Minority interests eligible for inclusion in AT1	-6	-8
- Minority interests eligible for inclusion in T2	-4	-6
- Ineligible minority interests on full phase-in	-590	-763
- Ineligible net income for the period [b]	-1,707	-
- Treasury shares included under regulatory adjustments	62	68
- Other ineligible components on full phase-in	-16	-11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,306**	**44,134**
Regulatory adjustments (including transitional adjustments)	**-6,979**	**-7,226**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,327**	**36,908**

[a] The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.

[b] Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 30 June 2016, after deducting the pro-rated share of the dividend on that profit, since Intesa Sanpaolo has decided to request authorisation from the ECB pursuant to Art. 26 of the CRR to include profit for the period in own funds solely if the amount of such profit exceeds the total amount of the dividend that is expected to be distributed for the year, i.e., 3 billion euro for 2016, on the basis of the 2014-2017 Business Plan.

Breakdown of consolidated results by business area and geographical area

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

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.
In addition to reflecting the operating responsibilities assigned according to 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 2016.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the first half of the year; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the provisions in force (Circulars 285 and 286, both issued during 2013, and the update to Circular 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

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

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
30.06.2016	4,410	1,678	1,068	869	299	673	-369	8,628
30.06.2015	4,602	1,796	1,042	887	371	650	-209	9,139
% change [(a)]	-4.2	-6.6	2.5	-2.0	-19.4	3.5	76.6	-5.6
Operating costs								
30.06.2016	-2,429	-460	-477	-258	-64	-75	-438	-4,201
30.06.2015	-2,419	-454	-499	-260	-67	-73	-433	-4,205
% change [(a)]	0.4	1.3	-4.4	-0.8	-4.5	2.7	1.2	-0.1
Operating margin								
30.06.2016	1,981	1,218	591	611	235	598	-807	4,427
30.06.2015	2,183	1,342	543	627	304	577	-642	4,934
% change [(a)]	-9.3	-9.2	8.8	-2.6	-22.7	3.6	25.7	-10.3
Net income (loss)								
30.06.2016	643	758	389	364	179	392	-1,018	1,707
30.06.2015	667	830	284	372	223	393	-765	2,004
% change [(a)]	-3.6	-8.7	37.0	-2.2	-19.7	-0.3	33.1	-14.8
Loans to customers								
30.06.2016	187,302	97,930	26,207	9,817	270	29	38,685	360,240
31.12.2015	184,522	89,691	25,818	8,971	372	24	37,935	347,333
% change [(b)]	1.5	9.2	1.5	9.4	-27.4	20.8	2.0	3.7
Direct deposits from banking business								
30.06.2016	163,740	110,152	32,807	23,745	8	208	56,097	386,757
31.12.2015	159,854	109,915	32,456	20,922	9	196	48,848	372,200
% change [(b)]	2.4	0.2	1.1	13.5	-11.1	6.1	14.8	3.9
Risk-weighted assets								
30.06.2016	88,099	98,018	31,005	9,193	1,053	-	59,318	286,686
31.12.2015	90,942	89,740	30,999	8,624	1,135	-	62,879	284,319
% change [(b)]	-3.1	9.2	-	6.6	-7.2	-	-5.7	0.8
Absorbed capital								
30.06.2016	8,369	9,314	2,965	908	117	4,591	5,644	31,908
31.12.2015	8,639	8,527	2,965	851	124	4,618	5,982	31,706
% change [(b)]	-3.1	9.2	-	6.7	-5.6	-0.6	-5.7	0.6

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

[(a)] The change expresses the ratio between 30.06.2016 and 30.06.2015.

[(b)] The change expresses the ratio between 30.06.2016 and 31.12.2015.

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	30.06.2016	30.06.2015	Changes	
			amount	%
Net interest income	2,316	2,473	-157	-6.3
Profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	1,943	2,088	-145	-6.9
Profits (Losses) on trading	30	32	-2	-6.3
Income from insurance business	-	-	-	-
Other operating income (expenses)	121	9	112	
Operating income	**4,410**	**4,602**	**-192**	**-4.2**
Personnel expenses	-1,510	-1,478	32	2.2
Other administrative expenses	-918	-941	-23	-2.4
Adjustments to property, equipment and intangible assets	-1	-	1	-
Operating costs	**-2,429**	**-2,419**	**10**	**0.4**
Operating margin	**1,981**	**2,183**	**-202**	**-9.3**
Net provisions for risks and charges	-30	-28	2	7.1
Net adjustments to loans	-930	-1,020	-90	-8.8
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**1,021**	**1,135**	**-114**	**-10.0**
Taxes on income from continuing operations	-392	-483	-91	-18.8
Charges (net of tax) for integration and exit incentives	-10	-11	-1	-9.1
Effect of purchase price allocation (net of tax)	-4	-2	2	
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	28	28	-	-
Minority interests	-	-	-	-
Net income (loss)	**643**	**667**	**-24**	**-3.6**

(millions of euro)

	30.06.2016	31.12.2015	Changes	
			amount	%
Loans to customers	187,302	184,522	2,780	1.5
Direct deposits from banking business	163,740	159,854	3,886	2.4
Risk-weighted assets	88,099	90,942	-2,843	-3.1
Absorbed capital	8,369	8,639	-270	-3.1

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

Banca dei Territori's operating income was 4,410 million euro in the first half of 2016, equal to over half of the Group's consolidated operating income, down 4.2% on the same period of the previous year. In further detail, there was a decrease in net interest income (-6.3%), as a result of smaller margins affected by the market scenario featuring negative rates and net fee and commission income (-6.9%), mostly on asset management products, only partly offset by the development of fee and commission income on bancassurance and protection products. Among the other revenue components, which nevertheless provide a marginal contribution to the Division's income, profits on trading were essentially stable (30 million euro) while other operating income recorded a significant increase (from 9 to 121 million euro) thanks to earnings coming from the disposal of the investment in Visa Europe. Operating costs, equal to 2,429 million euro, were slightly up compared to the same period of the year before: the increase in personnel expenses, related to the growth incentives, was largely offset by the reduction in administrative expenses. The operating margin amounted to 1,981 million euro, down 9.3% on the first six months of 2015. A similar trend was recorded in income before tax from continuing operations, equal to 1,021 million (-10%) despite lower adjustments to loans (-8.8%). Lastly, after the allocation to the Division of charges for integration of 10 million euro, the economic effects of purchase price allocation for 4 million euro and the income on discontinued operations for 28 million euro referring to the ordinary income gained by Setefi, a subsidiary for which a sale agreement was signed, net income stands at 643 million euro, down 3.6%.

On a quarterly basis, an acceleration in revenues is recorded in the second quarter, in particular in the commission segment.

The balance sheet figures at the end of June 2016 showed loans to customers of 187,302 million euro, up (+2.8 billion euro, equal to +1.5%) compared to the beginning of the year, essentially as a result of the increase in loans (households and personal), particularly in medium-long term loans. Direct deposits from banking business, amounting to 163,740 million euro were up 2.4%, as a result of greater cash held in deposits of retail and business customers.

Business

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

Mission

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

Organisational structure

Marketing and Multichannel Integration Departments	Overseeing the Retail sector, which consists of the following segments: Base (individual customers with financial assets of up to 10,000 euro), Households (individual customers with financial assets of between 10,000 euro to 100,000 euro) and Retail Businesses (businesses with less complex requirements); the Personal area (individual customers with financial assets of between 100,000 euro to 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less) as well as multi-channel services for customers and the Network.
Product companies	Specialised in medium-term credit, leasing, factoring and agribusiness (Mediocredito Italiano), and management of electronic payments (Setefi).
Banca Prossima	Serves non-profit organisations.

Distribution structure

Approximately 3,800 branches, including Retail and Business branches, distributed broadly throughout Italy. The network structure consists of 7 Regional Governance Centres, each of which directly reports to the Regional Manager. There are three Commercial Managers (one specialist for each business area, i.e. Retail, Personal and SME) in each Centre, coordinating around 400 commercial areas, in order to improve commercial focus and ensure the best possible service levels.

On 1 January 2016 the partial demerger of Setefi in favour of Intesa Sanpaolo, with the transfer to the latter of the business line regarding the acquisition of payment instruments (acquiring) towards captive customers, came into effect.
The activity of Setefi, simultaneously renamed Setefi Services (in abbreviated form Setefi) remains predominantly focused on the servicing and processing activities (to support the operations of the demerged business line). At the beginning of May 2016 Intesa Sanpaolo announced a sale-and-purchase agreement in respect of the sale of the total share capital of its subsidiaries Setefi and Intesa Sanpaolo Card to a wholly-owned subsidiary of Mercury UK Holdco Limited (Mercury). Mercury, which already owns Istituto Centrale delle Banche Popolari Italiane (ICBPI), is controlled by a consortium composed of Advent, Bain Capital and Clessidra. Setefi and Intesa Sanpaolo Card carry out processing activities relating to payment instruments. Since the completion of the sale is set for the end of this year, starting from the Half-Yearly Report as at 30 June 2016 and until the transaction is completed, the accounting balances attributable to the company are reclassified under the specific captions relating to discontinued operations, as required by IFRS 5.

In order to streamline the structure of the banks included in the Division by gradually but significantly reducing the number of its legal entities, the merger by incorporation of Banca dell’Adriatico into the Parent Company has been effective since May.

Marketing and Multichannel Integration Department

Investment

During the first half of 2016, the diversification of customer portfolios continued according to customer needs (spending, reserves, investment and pension) and the Recommended Portfolios.
The range of investment products, developed considering both the market scenario and the rationale behind the Recommended Portfolios, was extended following the launch of:

- forty mutual funds, including "Eurizon Multiasset Strategia Flessibile", the first gradual risk investment fund, "Sistema Distribuzione", with two classes of units, one income distribution class and one income accumulation class, "Epsilon Difesa Attiva", which combines moderate growth and capital protection over 12-month periods and "Epsilon Multiasset Absolute 3 anni", which focuses on diversification, flexibility and loss risk mitigation;
- "Exclusive Insurance", a customisable and flexible Intesa Sanpaolo Life unit-linked policy that allows for the investment in funds of the Group and of the main international asset management companies, offering three investment lines that can be tailored to customer needs in terms of risk level and time horizon; the internal fund for the "ISPL Prospettiva 2.0" unit-linked policy, "Protezione Dinamica", partially protected (at least 80% of the invested capital) and addressing a need for protection that is particularly required in a market phase characterised by high volatility; a new low-volatility internal fund "Multiasset Flex 5", and a new "Mix Base Stabilità" for the combined policy "Giusto Mix";
- three new flexible lines within GP Unica and GP Unica Facile;
- Group bonds and certificates.

Thanks to the agreement with Diamond Private Investment, the Bank's offer was expanded, at the moment only for Personal customers, with a supplementary service to the traditional financial products, allowing customers to invest in a safe haven asset such as diamonds, expanding the opportunities for diversification of their investments.

Protection

In a scenario of growing demand for integration of health services, Intesa Sanpaolo launched an innovative range concerning health and welfare with three new policies: "Infortuni", "Prevenzione e Salute" and "Interventi Chirurgici", simple customisable and modular solutions thanks to a series of optional guarantees, with discounts connected to the number of insured parties. Also available is the new "Tutela Famiglia" policy, which, through the customisable combination of the three liability insurance policies Capofamiglia, Tutela Legale and Scippo e Rapina, allows the insured party and his/her family to be protected in case of unexpected events in their daily lives. As part of the motor sector, the "ViaggiaConMe" policy has been enriched with a new consumption-based plan dedicated to those who wish to pay the premium based on the actual use of the vehicle, in addition to the existing distance-based plans. "Tutela Business", a line of insurance solutions designed for retail businesses and small and medium enterprises operating in various industries, ensuring their daily operations and protecting their capital in case of unexpected events, was inaugurated with the launch of "Tutela Business – Commercio" and "Tutela Business – Agricoltura".

Payment cards

A review of the catalogue of prepaid cards was launched in the period, with the first release of the new Carta Flash Nominativa (Named Flash Card) replacing the named Expo Flash Card and Visa Paywave Flash Card. The distinctive features of the new range include the presence of IBAN to receive bank transfers, the expiration of the card after 4 years and the possibility to customise the layout with an image chosen by the customer. In addition, the new catalogue of credit cards for private individuals was launched, consisting of Carta Blu, Carta Oro and Carta Oro Exclusive, which feature a unique and stylish layout, are easy to use, require no fee for the first 6 months and subsequently charge a decreasing fee based on use, are customisable, via additional targeted services, and safe, thanks to the "Zero Liability" and "Assicurazione Acquisti" insurance coverage.

Mortgages

The mortgage range was enhanced and expanded with solutions specifically dedicated to young people and sales and purchases. "Mutuo Giovani" is the new flexible and modular mortgage solution, covering up to 100% of the value of the home, with a duration up to 40 years, an initial period, from 1 to 10 years, of interest-only "light instalments", costing less than renting, with the possibility of suspending the payment of the instalments and lengthening / shortening the duration, with the aim of allowing young people to move from renting to owning a home, in a favourable period due to the record low interest rates. For those customers who already own a home and want to purchase a new home while waiting to sell their existing one, the new mortgage dedicated to sale and purchase allows, with a grace period of one year, an initial instalment of a much smaller amount compared to the "full" one of capital plus interest, with the potential to use part of the earnings from the sale to settle a portion of the residual debt.

Loans

The range of loans was expanded with "PerTe Prestito Exclusive", a loan designed for those who are able to pledge financial instruments, allowing them to rely on loans of a high amount, also lasting more than 10 years, and beneficial economic conditions, thus meeting their borrowing requirements without the need to divest. From the middle of May, "PerTe Prestito Vitalizio" became available at some pilot branches of Intesa Sanpaolo, allowing over 60s to obtain, against a mortgage guarantee on an owned property, the disbursement of a sum depending on the value of the property and the age of the customer. The loan represents a form of generational solidarity of parents towards their children, allowing them to provide direct or indirect assistance. In line with this objective, the involvement of the children is required as their consent is needed to grant the loan and fill in an adequacy questionnaire to allow the identification of any alternative financing solutions that are consistent with the customer's needs.

Intesa Sanpaolo Casa

As part of the process of developing and expanding the services offered to customers, aimed at achieving an increasingly broader presence and meeting customers' comprehensive home needs, the development plan continued for Intesa Sanpaolo Casa, a Group company whose mission is to buy and sell residential real estate. At the end of the half year there were 23 real estate agencies operating in the national territory, managed by employees and positioned as "shop in shop" inside the branches of the Bank, providing qualified consultancy and state-of-the-art services to search, buy, renovate and furnish homes.

Multichannel Project

As part of the process of document dematerialisation started in 2011, the objective of eliminating paper in all the Retail and Personal branches was achieved at the beginning of June, with the exclusive use by customers of their graphometric signature (which may be activated at the branch by participating in the service) or digital signature (which the customer may enable independently via Internet Banking) to sign agreements that have already been subject to dematerialisation. This new method of signing documents for the sale of banking, financial and insurance products was developed also in the interest of customers, since electronic signatures provide greater security, easier storage and documentation management and greater environmental protection. During the half year, the scope of dematerialised products, which already included all accounting documents at the counter, all investment products, payment cards and the main regulatory documents, was expanded to personal loans, the signing of first, third or combined branch policies and after-sales support. The project will continue with a further extension of the scope of dematerialised products. To improve the service level provided to customers, the telephone contact unit was transformed into an Online branch with seven offices in Torino, Milano, Bologna, Cagliari, Napoli, Lecce, Trapani, with Padova soon to be added, where around 1,000 people will work by the end of the year, with operators enabled not only to provide information to customers remotely, also using co-browsing, but also to perform operations and commercial offering.
At the beginning of June, the new Intesa Sanpaolo Banca Online was started. This is the new website that, through progressive releases, has been available to all Group customers since the middle of July. Simplicity, clarity, speed, customisation and proximity are the principles underlying the new website in order to encourage the use of services also by less experienced customers. Thanks to the integration between physical and digital channels customers are free to interact with the Bank the way they deem fit: at the branch, on the phone with Online Managers or on the digital channels.

Agreements

The agreement "Una crescita possibile" (Possible growth), entered into with Confindustria Piccola Industria in 2014 and expired at the end of 2015, has been extended until 30 September 2016. The extension provided for the additional financial assistance for companies that make use of the 140% super-depreciation provided by the 2016 Stability Law, with the possibility to access a medium to long-term loan worth up to 100% of the investment, as well as a further credit line up to 40% to free up the credits arising from business growth generated by the investment. New themes were also introduced such as corporate welfare and access to the capital market for SMEs. As part of a specific focus on agriculture, a three-year partnership agreement has been signed between Intesa Sanpaolo and the Ministry of Agricultural, Food and Forestry Policies to support agriculture and the food and agricultural companies in our country and help the competitiveness of a key sector for the Italian economy. In order to facilitate access to credit, the Bank has allocated an annual ceiling of 2 billion euro, intended primarily for investments to enhance and develop the Italian productive chains, with the additional aim of facilitating the process of internationalisation, facilitating generational change, computer use and e-commerce in the sector, and supporting research, experimentation, technological innovation and product enhancement.

Sviluppo Filiere

The "Sviluppo Filiere" programme continued. This is an innovative project launched by Intesa Sanpaolo with the aim of supporting the growth of production chains of excellence in the Italian entrepreneurial system. The initiative, which focuses on relationships between companies and their suppliers, improves credit access conditions and offers custom-tailored products for companies that have production arrangements with one another. The participating lead companies are more than 300, for a potential credit ceiling of approximately 18.5 billion, involving about 10,000 suppliers when finalised.

Loans

To help small businesses having difficulties in accessing credit, by supporting their growth plans, Intesa Sanpaolo has established "Finanziamento Microcredito Imprenditoriale" (business microcredit financing), which offers the possibility to access credit without collaterals, taking advantage of a special section of the SME Guarantee Fund established by the supplementary decree of the Ministry of Economic Development of 18 March 2015. The new medium-long term loan with a maximum duration of 7 years and a maximum amount of 25,000 euro, is intended to finance the start-up or the development of a self-employed or micro-enterprise activity or to promote the integration of individuals in the labour market. Since February the "Surroga per microimprese" (subrogation for micro-enterprises) product has been launched, aimed at Micro-enterprise customers with less than 10 employees and turnover/budget of less than 2 million euro, intended to subrogate loans being regularly repaid at another bank, both assisted by mortgage guarantee and unsecured. To support the Italian economic system, Intesa Sanpaolo and the European Investment Bank have made a credit line available to small and medium-sized enterprises for 600 million euro in total (300 million euro each). The loans, disbursed through Mediocredito Italiano, are intended for both new projects and ongoing projects that have not been completed yet, of an amount not above 50 million euro and with a maximum duration of 12 years.

Internationalisation

Through the dedicated structure, which supports business managers and specialists of the Banca dei Territori Division to provide companies with qualified and prompt consulting, in response to the need of businesses to find new international partners, during the six-month period B2B meetings between numerous and qualified Italian companies and several international counterparties have been organised, together with about 200 meetings to support and assist corporate customers' projects related to internationalisation. Moreover, further partnership agreements were signed with foreign banks which allow, in addition to the international network, to provide assistance to customers in 84 countries, and an initiative addressed to Italian companies already present abroad has been launched, in order to raise awareness and promote the internationalisation support and the banking services of the international network of the Group operating in approximately 40 countries.

Services

Inbiz, the remote banking channel for enterprises, added the new "Anticipo Fatture Estero Web" service to the existing products dedicated to the electronic management of invoices: "Easy Fattura", for the management of the invoicing process, "Cruscotto Fatture", to monitor collections and "Anticipo Fatture Italia Web" to manage the assignment of invoices issued to resident customers, allowing the online release of invoices, contracts, purchase orders for goods and export flows regarding debtors resident abroad.

Product companies

In the first half of 2016, **Mediocredito Italiano** recorded a sales volume of medium- and long-term products of over 2.4 billion euro, up 6% (+137 million euro) compared with the same period in 2015, whilst factoring turnover was approximately 27.5 billion euro, down 0.6% (-162 million euro).
Mediocredito Italiano disbursed loans totalling 1.8 billion euro, increasing by 13% compared to the first half of 2015. With 1.6 million euro of loans disbursed (+15% compared to the same period of the previous year), the Banca dei Territori Division accounts for 90% of total volumes, whilst the Corporate and Investment Banking Division represents 10% of disbursed loans (187 million euro, +3%).
"Subito Mediocredito" generated 33% of the channelled lending in the Banca dei Territori Division (compared with 26% in the same period of the previous year). The Specialist Desks dedicated to the principal economic sectors generated long-term loan disbursements of 470 million euro (equal to 26% of the total disbursed during the period), a value which almost doubled compared with the same period in 2015.
In the first half of 2016, Mediocredito Italiano entered into leasing contracts with a value of 632 million euro (-10% compared to the first six months of the previous year). Contracts entered into by customers of the Banca dei Territori Division amounted to 596 million euro (-2%), representing 94% of total volumes. Customers in the Corporate Division signed contracts totalling 24 million euro, equal to 4% of volumes, marking a decrease (-68%) compared to the same period of 2015. The best-selling leasing products were instrumental leases, albeit with a lower impact on volumes compared to the first half of 2015 (from 53% to 46%). The Real estate product accounts for 38%, recording a recovery compared to the same period of the previous year (34%). There was an increase in the weight of car leasing (from 10% to 13%), and energy leasing (from 2% to 3%).
Turning to the commercial performance of the factoring business, in the first half of 2016 Mediocredito reported a turnover of 27.5 billion euro, a slight decrease (-0.6%) on the same period of 2015, retaining its position as the number-one domestic factoring provider by turnover, with a market share close to 30%. Non-recourse factoring accounted for a greater share of factoring business (89%), unchanged compared to the same period of 2015. Compared with 30 June 2015, outstanding receivables, equal to 13.9 billion euro, posted a decline (-7%) and period-end loans amounted to 11.6 billion euro (-10%). The international activities related to the import and export factoring segments (both directly and intermediated through the correspondent bank members of Factors Chain International) and the foreign-on-foreign operations, predominantly conducted under the freedom to provide services in other European Union countries. The volumes generated, equal to 6.9 billion euro, represent 25% of the total turnover, down on the first half of 2015 (-3%).

Setefi specialises in managing electronic payment systems, and is registered in the Payment Institutes Registry kept by the Bank of Italy. In order to achieve a different configuration of the provision of payment services within the Group, in line with the prevailing business model at major national and international competitors, the Intesa Sanpaolo Management Board, on 31 July 2015, and the Setefi Board of Directors, on 4 August 2015, approved the partial demerger of the business unit of Setefi in favour of the Parent Company, regarding the acquisition of payment instruments (acquiring) towards captive customers. As described previously, the demerger became effective on 1 January 2016 and serves the subsequent sale of the entire capital of the subsidiary.

Banca Prossima

In the first half of the year, Banca Prossima, which operates in the non-profit sector with 83 local branches (80 of which are authorised by the Bank of Italy) and approximately 290 specialists distributed across the country, continued to acquire new customers for the Group. As at the end of June 2016 the Bank had a customer base numbering around 57,000. Financial assets amounted to 7 billion euro, of which 2.6 billion euro in direct customer deposits while lending operations had achieved an approved amount of 2.4 billion euro (of which 1.6 billion euro had been used).
To consolidate and further strengthen the leading role for the non-profit sector, commercial operations concentrated on acquiring new customers as well as developing existing customers. During the half year, the sales method introduced in late 2015 was further fine-tuned by structuring a sales plan that will guide the activities of the bank for the rest of the year. 14 specific initiatives were organised in order to develop the relationship with non-profit organisations and better meet their needs, giving priority to financial needs not yet adequately met. Specific initiatives were also developed in order to strengthen the relationship with the customers contributed in 2014, in addition to initiatives targeting customers in the religious sphere.
In addition, in order to develop greater synergies with Foundations of banking origin, studies have been launched to identify innovative solutions to use the Terzo Valore platform and the Cre.S.Co. initiative.
In the half year, a work group was set up, which recorded all of the bank's customers by activity, with segmentation based on three hierarchical levels.

Corporate and Investment Banking

(millions of euro)

Income statement	30.06.2016	30.06.2015	Changes	
			amount	%
Net interest income	712	777	-65	-8.4
Profits (losses) on investments carried at equity	3	5	-2	-40.0
Net fee and commission income	483	412	71	17.2
Profits (Losses) on trading	480	601	-121	-20.1
Income from insurance business	-	-	-	-
Other operating income (expenses)	-	1	-1	
Operating income	**1,678**	**1,796**	**-118**	**-6.6**
Personnel expenses	-173	-168	5	3.0
Other administrative expenses	-286	-284	2	0.7
Adjustments to property, equipment and intangible assets	-1	-2	-1	-50.0
Operating costs	**-460**	**-454**	**6**	**1.3**
Operating margin	**1,218**	**1,342**	**-124**	**-9.2**
Net provisions for risks and charges	-1	4	-5	
Net adjustments to loans	-123	-132	-9	-6.8
Net impairment losses on other assets	-1	-2	-1	-50.0
Profits (Losses) on investments held to maturity and on other investments	18	-	18	-
Income (Loss) before tax from continuing operations	**1,111**	**1,212**	**-101**	**-8.3**
Taxes on income from continuing operations	-350	-381	-31	-8.1
Charges (net of tax) for integration and exit incentives	-3	-1	2	
Effect of purchase price allocation (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**758**	**830**	**-72**	**-8.7**

(millions of euro)

	30.06.2016	31.12.2015	Changes	
			amount	%
Loans to customers	97,930	89,691	8,239	9.2
Direct deposits from banking business [(a)]	110,152	109,915	237	0.2
Risk-weighted assets	98,018	89,740	8,278	9.2
Absorbed capital	9,314	8,527	787	9.2

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

[(a)] The item includes capital protected certificates.

In the first half of 2016, the **Corporate and Investment Banking Division** recorded operating income of 1,678 million euro (representing 19% of the Group's consolidated total), down 6.6% compared to the same period of 2015.
In detail, net interest income, equal to 712 million euro, declined (-8.4%) primarily as a result of smaller margins and of a lower contribution from the Luxembourg subsidiary. Net fee and commission income of 483 million euro increased (+17.2%) due to the growth of fee and commission income especially in the investment banking and commercial banking sector (including loans, guarantees and interbank services). Profits on trading, equal to 480 million euro, decreased by 20.1%, mainly due to the negative performance of the proprietary trading activity. Operating costs amounted to 460 million euro, up 1.3% compared to the same period of 2015, due to higher personnel and administrative expenses. As a result of the trend in revenues and costs described above, the operating margin, amounting to 1,218 million euro, recorded a -9.2% decrease. This trend was reflected in income before tax from continuing operations, which fell to 1,111 million (-8.3%). Finally, net income came to 758 million euro, compared to 830 million in the same period of 2015 (-8.7%).
As already seen for the Banca dei Territori Division, the Corporate and Investment Banking Division showed an improvement in income results in the second quarter compared to the first.

The Division's intermediated volumes increased compared to the end of December 2015 (+4.2%). In detail, loans to customers of 97,930 million euro showed significant growth (+9.2%) as a result, in particular, of increased operations in repurchase agreements and collateral by Banca IMI and of the new financing transactions undertaken by the Luxembourg subsidiary. Direct deposits from banking business, amounting to 110,152 million euro, were essentially stable (+0.2%): the positive performances of the funding of Banca IMI and Intesa Sanpaolo Bank Luxembourg securities issued, fully offset the decline in amounts due to customers of the International Network & Global Industries, Financial Institutions and Corporate & Public Finance departments.

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	
International International Network & Global Industries Department	The Department develops and manages relations with Italian and foreign industrial groups, which have a high degree of complexity and international presence, and operate in eight key sectors with strong growth potential: Automotive & Industrial; Basic Resources & Diversified; Consumer, Retail & Luxury; Healthcare & Chemicals; Infrastructures & Construction; Oil & Gas; Power & Utilities; Telecom, Media & Technology. Using the International Network, which comprises branches, representative offices and international corporate banks and through the cooperation with the International Subsidiary Banks Division, the Department manages the relationship with international counterparties and provides specialist assistance in supporting the internationalisation of Italian businesses, developing their exports. The synergy with Banca IMI ensures coverage as well as developing investment banking (ECM, DCM, M&A) and structured finance activities, whilst leasing, factoring and subsidised financing business is carried out by the Department in partnership with Mediocredito Italiano.
Corporate and Public Finance Department	The Department is responsible for servicing individual companies and large and medium national groups, by means of a global and integrated offer of products and services provided by all the Divisions and Group product companies. It also serves Public counterparties consisting of Central State Administrations, Local Entities and the so called "public corporate entities".
Financial Institutions Department	The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its particularly sophisticated approach to relations with such customers is amply diversified and oriented towards integrated solutions that promote the cross-selling of capital markets and investment banking products.
Global Transaction Banking Department	The Department is responsible for transaction banking products and services for the entire Group.
Proprietary Trading	The Service is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives.
Global Markets and Corporate & Strategic Finance	The scope of the Division also includes the M&A, capital markets, structured finance and primary markets (equity and debt capital market) activities performed by Banca IMI.
Distribution structure	In Italy, the Corporate and Investment Banking Division draws on a total of 44 branches dedicated to corporate customers and public customers. At the international level, it operates in 29 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.

International Network & Global Industries Department

In the first half of 2016, the International Network & Global Industries Department continued to act as financial partner to its customers by organising participation in a number of syndicated loans in collaboration with Banca IMI.
In particular, note should be taken of the role of Mandated Lead Arranger in the granting of a new revolving credit facility to the Leaseplan Group, in the syndicated loan aiming to reorganise the infrastructural assets of the EPH Group and the financing operations in favour of the InterOil Group and Oyu Tolgoi LLC (Rio Tinto PLC Group). Worth noting is also the participation, with the same role, in the acquisition financing in favour of Abbott in purchasing St. Jude, the loan aimed at the acquisition of Grandi Stazioni Retail by the Antin, Icamap and Borletti Group Consortium, as well as the refinancing of Aspen Pharmaceuticals, a South African group working in the production of generic and branded worldwide pharmaceuticals. Also covered were the roles of Senior Managing Agent in the refinancing of the Ball Corporation group, of Joint Bookrunner in the syndicated loan of America Movil and of Documentation Agent in the syndicated loan in favour of Keurig Green Mountain and in favour of Samsonite for the acquisition of TUMI. Noteworthy is also the support activity carried out in favour of ChemChina for the acquisition of Syngenta, of the Abbott Group for the acquisition of Alere, of the Air Liquide Group for the acquisition of Air Gas and the participation in the loans in favour of Glencore, Whirpool, Shire for the acquisition of Dyax, of Western Digital for the acquisition of SanDisk, EPIF, Fluor Corporation and Thyssenkrupp. Please note the refinancing operations of the Cheniere and Amec Foster Wheeler groups, in addition to the participation in the financing relating to the acquisition of Keurig by JAB Holding and the one in favour of Fortive during the spin-off of the parent company Danaher. Finally, please remember the participation in the pre export financing transaction to support Uralkali, the role of Mandated Lead Arranger in the export financing transaction of Vitol and in the refinancing to support Equate, a joint venture between Dow Chemical and the government of Kuwait.
Regarding the Equity Capital Market business, the Department acted as Joint Global Coordinator in the capital increase of Prelios, as Coordinator in the takeover bid launched by the Mitsubishi Group for Delclima and as "Bank in charge of the bid" in Hyster-Yale's takeover bid of Bolzoni.
With reference to the Debt Capital Market, the Department acted as Joint Lead Manager & Bookrunner in the bond issues of Gas Natural Fenosa, Iberdrola, Viesgo, Heidelberg Cement, FCA, Ferrari, as Joint Bookrunner in the issues by ABInBev, Buzzi Unicem, Salini Impregilo, Autoroutes du Sud de la France, Société des Autoroutes Paris-Rhin-Rhône, Abertis Infraestructuras, Enagas and Merlin Properties SOCIMI, as well as in the hybrid bond issue of the Total group and the corporate bonds of ENI, RCI Banque, General Motors, PSA, CNH Industrial, Telecom Italia and Telefonica. Moreover, the Department also acted as Sole Arranger in the issue of a Private Placement for Daimler, as Co-Lead Manager in the issue of bonds of Deutsche Telekom, Co-Arranger in the issue of a Private Placement for FCA Bank and as Dealer Manager for the Alstom bond buyback offer and in the Exchange Offer of Salini Impregilo.
Moreover, during the first half, work continued on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets. As part of the initiatives aimed at increasing its international presence and the customer support in markets of strategic interest, the Group received the banking license for the opening of two new branches in the United Arab Emirates and in Qatar, respectively in Abu Dhabi, where it was previously present with a representative office, and in Doha. Furthermore, the representative office in Jakarta, Indonesia was established. With the aim of strengthening coverage in Benelux, the Amsterdam branch of Intesa Sanpaolo was contributed to the subsidiary Intesa Sanpaolo Bank Luxembourg. With a direct coverage in 29 countries, 15 wholesale branches, 15 representative offices and 3 subsidiary banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A.), the Division's current international network more and more represents the right blend of customer relations and offering of products in specific markets.

Corporate and Public Finance Department

In the first quarter of 2016, the Corporate and Public Finance Department continued to ensure its support both to corporate customers, consisting of individual companies or national groups with over 350 million euro in turnover, and to public customers consisting of Central State Administrations, Local Entities and the so-called "public corporate entities" (companies with public participation of strategic importance in the services and infrastructure sectors).
In particular, the Department proposed loans at favourable economic terms to its customers, to transfer to the real economy the liquidity made available to the European banks by the ECB during the second edition of TLTRO in March 2016. The specialist skills gained consequently to the Industry model contributed to making the commercial activity more effective, adjusting it to the customers' specific needs and allowing for important transactions with Italian company customers. Worth noting in particular is the support activity provided to Diasorin to purchase Focus Diagnostics, to the Fidia Farmaceutici Group for the acquisition of the Infa-Labochim Group and MIC Bidco's takeover bid of the ordinary shares of Engineering - Ingegneria Informatica. Furthermore, please note the participation in a significant financing transaction conducted by a pool of banks in favour of Acciaieria Arvedi. The monitoring continued during the half of the year of the activity aimed at promoting the internationalisation of Italian customers through a dedicated service model that is based on professionals in charge of the commercial coordination of specific services and products. To this end, specific meetings were held at the main international business plazas to bring together customers and the Bank's local contacts and to analyse the commercial development opportunities and the related technical and operation methods to implement them. Moreover, in synergy with the Banca dei Territori Division, the activity regarding "Programma Filiere" continued with the aim of promoting production chains of excellence in the Italian entrepreneurial system. More specifically, on the basis of an agreement with the lead companies, including many customers of the Department, this programme allows the Bank to support the suppliers of such production chains by improving credit access conditions and offering tailor-made products. Lastly the constant collaboration with Banca IMI allowed the successful conclusion of the Structured Finance transactions, Merger & Acquisition and Advisory activities and, at the same time, the continuation of the consultancy and marketing of products for hedging market risks (interest rates, currencies and commodities).

Financial Institutions Department

In the first half of 2016 the international banking sector continued to feature major restructuring and all the main groups announced strategic plans focusing on improving efficiency and adjusting the service model, also to avoid a scenario of rates close to zero or negative. Specifically the Italian sector was concerned by situations of special importance as regards the competitive dynamics (the first merger was announced between medium sized cooperative banks post transformation into SpA) and the need to restructure and recapitalise. On this point, after the intervention of the Resolution Fund for the revitalisation of four small- and medium-sized financial institutions, the banking system voluntarily established an investment fund aiming to support recapitalisation transactions of banks in difficulty (two interventions have already been finalised) and to finance the transfer of non-performing assets. During the period also the lawmakers, in cooperation with the banking supervisory authorities, approved important measures such as the law on reorganising credit unions and the mechanisms and structures to support the evaluation of "problem loans". However, the market still does not seem to fully appreciate the extent of these interventions, so much so that banking stock prices suffered significantly, and even more than recorded at European level following the decision of the UK's referendum to leave the European Union.

In the Trade Finance segment, during the first half of 2016 the trend continued of progressively reducing the flows of the Group's trade receivables from China and India and consolidating those from Turkey and Brazil. A decrease was recorded in commitments towards some Sub-Saharan countries, and towards Nigeria and Angola in particular, in addition to Egypt, due to a lower availability of strong currency consequently to the drop in the price of commodities and the political instability in those countries. An increase was recorded in operations with Gulf countries and Cuba while an interest in Argentina was resumed; with a view to the future, the activities were pushed forwards to reconnect with the Iranian banks and restore the commercial support to customers doing business in Iran, for transactions on consumer goods and service and for initiatives in infrastructure and energy. Finally, please note a sustained operation in the commodities financing sector and, in particular, the participation in primary transactions such as those realised with the customers KazMunayGaz, Petroleum Development Oman and Ghana Cocoa Board.
With reference to the Asset Management & Insurance segment, the focus of the first half was on the interest of international institutional investors in particular alternative funds, towards Italian assets, companies and portfolios of receivables, which created various opportunities, especially in the financing and advisory world. The market's high volatility continued to generate interesting flows in the secondary market, but heavily reduced the activity on the primary market, both equity and fixed income.
The transactional sector of Financial Institutions focused on expanding its customer-base. To this end, ad hoc commercial campaigns were launched with the participation in the organisation of a European resonance event (EBADay) which was very popular, highlighting the Bank's ability to provide innovative solutions. Regarding Securities Services, worth mentioning is that the market is experiencing a period of deadlock in consideration of the persisting adverse conditions and the migration activity to additional stages of the Target2 Securities project.

Global Transaction Banking Department

In the first half of 2016 the Global Transaction Banking Department worked in close cooperation with all the Departments in order to enhance the Group's range of transaction banking products and services.
It provided support to the relationship structures as part of the commercial campaigns and started monitoring customers more and more constantly, both in Corporate & Investment Banking and in Banca dei Territori. Significant synergies were found in the sale of cash management services supporting the acquiring services.
In terms of investments, the Department concentrated on creating the GTB International Platform with the purpose of developing a consistent offer of transactional services (Cash Management and Trade Finance) at international branch and international bank level, on creating added value services such as the Liquidity Dashboard platform to support treasury management in real time, on enhancing the Payment factory services, completing and strengthening the global offer of e-banking Inbiz for companies, developing a host of solutions for the Public Administration as well as on the activities for the creation of the instant payments in euro and foreign currency (Swift Global Payment Innovation Initiative and EBA-SIA Projects) and the analysis on the possible impacts and opportunities deriving from the new Payment Service Directive 2.
Finally, there is the on-going consolidation of the oversight activated for the promotion of commercial cards through the contacts with leading customers of the Corporate & Investment Banking Department also in order to identify future product developments aimed at enhancing the offering and its related services.

Proprietary Trading

During the first half of 2016, Proprietary Trading recorded a negative contribution to the income statement in terms of revenues, down compared with the same period of 2015.
Overall, as at 30 June 2016, the risk exposure to structured credit products (financial assets designated at fair value), funded and unfunded ABSs/CDOs at the Group level amounted to 2.1 billion euro, up from 2 billion euro as at 31 December 2015.
The hedge fund portfolio held for trading as at 30 June 2016, totalled 502 million euro, compared to 758 million euro recorded in December 2015. The reduction of the portfolio is mainly due to the decrease in the value of the units underwritten during the period and the repricing of the euro on the dollar, which affected the value of the positions denominated in that currency. The distributions and the redemptions of the period also influenced the changes in the portfolio.

Global Markets and Corporate & Strategic Finance

In the first half of 2016, as part of corporate risk solutions, Banca IMI's activity on interest rates recorded strong growth thanks to the notable number of transactions of a significant amount and high added value connected to extraordinary transactions of customers (project financing, acquisitions and bond issues) and the derivative novation business. Foreign exchange maintained high levels of profitability, despite the uncertainty generated by Brexit, with significant operations in foreign exchange risk hedges by importers. In the commodities business, growth was recorded in the six months consequently to the extraordinary transactions due to macroeconomic context, in particular in the power & gas sector. The activity with the Italian banks concentrated on transactions to improve the capital ratios and on the search for solutions to decrease NPLs (Non Performing Loans). Within the domestic network, the placement of certificates and bonds on the networks slowed down due to the market conditions in the first part of the year, such as the correction of the equity markets in the presence of high volatility, the low level of medium/long-term interest rates and the strict regulations on complex products and the banking crises (bail-in). As regards the Market HUB platform, market volatility affected cash equity and fixed income flows, while listed derivatives performed well with peaks in June. During the half year, the Market HUB acquired new institutional customers, followed the launch of the relevant mobile app for Intesa Sanpaolo retail customers, predisposed the creation of an e-sale desk in New York and started the connection project for the access to European markets by a Chinese bank.
Moreover, Banca IMI structured the securitisation of a portfolio of auto loans originated by FCA Bank acting as Joint Arranger and finalised conduit financing transactions on portfolios of loans underlying lease contracts in favour of Banca Carige and Banca Monte dei Paschi di Siena. A securitisation transaction was finalised in favour of Alba Leasing and programmes were structured for the securitisation of consumer loans for Fincontinuo, Banca Sistema and Banca Carige. Again with regard to consumer loans, the bank acted as Joint Arranger to structure a transaction regarding CQS loans (assignment of one-fifth of salary) originated by Accedo, a company of the Intesa Sanpaolo Group, successfully placing the ABSs deriving from the transaction. The bank also assisted Intesa Sanpaolo in issuing a covered bond within the framework of the ISP CB Ipotecario programme it is the Co-arranger of. A conduit financing transaction was finalised on a portfolio of UK residential mortgages originated by Barclays and collateralised lending transactions were structured in the form of repurchase agreements with Italian banks. With reference to corporate customers, as Sole Arranger the bank finalised the increase of the programme for the securitisation of trade receivables originated by Wind Telecomunicazioni and deriving from the supply of telephone services and the sale of mobile devices to consumer and microbusiness users.

In the Equity Capital Market segment, characterised by a sharp decline in the primary market, Banca IMI acted as Sole Global Coordinator for Veneto Banca's capital increase, Joint Bookrunner for Saipem's capital increase, for Coima Res IPO and the sale of the share capital of Anima Holding by Credito Valtellinese, as Sole Bookrunner for the sale of the company capital of Iren by the Municipality of Parma, as Co-lead Manager for the ArcelorMittal's capital increase and Parques Reunidos IPO, as Co-manager for Telepizza IPO and as the intermediary responsible for coordinating subscriptions to the takeover bids for DeLclima, Ansaldo STS, Bolzoni and Engineering.
With reference to the Debt Capital Markets activity, Banca IMI acted as Bookrunner in various transactions in the corporate segment and in particular it supported the customers AB InBev, FCA, Telecom Italia, Ferrari, Buzzi-Unicem, IGDTelefonica, Gas Natural, Merlin Properties, Enagas, Abertis, and Viesgo. It intervened in the "Project Bond" segment as Bookrunner in the issue of Concessioni Autostradali Venete and played the role of Joint Lead Manager and Bookrunner for the Italian Treasury and of Sole Bookrunner for the retail issue of IBRD (World Bank). In the Financial Institutions segment, it acted as Joint Bookrunner and Bookrunner in the Intesa Sanpaolo subordinated issues and in the mortgage covered bond issued by Deutsche Bank Spain, and as Joint Lead Manager in the Senior Euro issue of JP Morgan, Citi and the Euro Tier2 Subordinated Notes of HSBC Holdings and Deutsche Bank.
With reference to the M&A activity, the bank supported, in the Energy sector, the Italian Fund for Infrastructure F2i in the establishment of a joint venture with Enel Green Power, the company SEL Spa/AG in the project for the restructuring of Edipower and in the reorganisation plan of investments in Hydros and Seledison, Impresa Pizzarotti & C. in the sale of Pizzarotti Energia to Holding Fotovoltaica; Iberdrola in the sale of SER and the Glennmont fund. In the TMT sector the bank assisted the NB Renaissance and Apax funds in buying a stake of Engineering and in the consequent mandatory takeover bid on the float; in the Infrastructure sector it supported ReConsult in the sale of the investment in A4 Holding to Abertis and in the Industrial sector the German group GEA in the acquisition of Imaforni. In the Consumer & Healthcare sector it assisted Charterhouse in the sale of DOC Generici to CVC Capital Partners, Investcorp in the acquisition of a stake in Corneliani and Centrale del Latte di Torino in the merger with Centrale del Latte di Firenze, Pistoia e Livorno. In the Financial Institutions sector it assisted Fondazione Carige in identifying the strategic asset allocation objectives of the equity and the sale of an investment in Cassa Depositi e Prestiti to Istituto Banco di Napoli-Fondazione.
In a year that started with high volatility and a considerable reduction in the volume of syndicated loans, the Structured Finance business of Banca IMI developed intense international operations by participating in the major deal of the half of the year, i.e. the acquisition of Syngenta by ChemChina and other top leveraged deals of 2016, namely the acquisition of SanDisk by Western Digital and the acquisition of the company Keurig Green Mountain by a consortium of investors led by JAB Holding. Important were also the loan to Cheniere Energy Partners and some actions in the shipping (Unipec/HNA Logistics, Cido Product Tankers, Wellard), media & entertainment, renewable energy, oil & gas (NSMP, SPI Exploration & production), infrastructural asset (Parques Reunidos, Gold Coast Light Rail, Millennium Parking) and energy sectors. Moreover, actions continued on the Italian market in the fields of renewable energies (ForVei), shipping (Moby, D'Amico and Grandi Navi Veloci), Real Estate (Grandi Stazioni, Domus and Coima Res) and with important Corporate transactions (RCS, Lavazza, Marcegaglia, Arvedi, Giochi Preziosi and Valvitalia).

International Subsidiary Banks

(millions of euro)

Income statement	30.06.2016	30.06.2015	Changes amount	%
Net interest income	728	745	-17	-2.3
Profits (losses) on investments carried at equity	23	36	-13	-36.1
Net fee and commission income	236	252	-16	-6.3
Profits (Losses) on trading	60	47	13	27.7
Income from insurance business	-	-	-	-
Other operating income (expenses)	21	-38	59	
Operating income	**1,068**	**1,042**	**26**	**2.5**
Personnel expenses	-265	-271	-6	-2.2
Other administrative expenses	-168	-180	-12	-6.7
Adjustments to property, equipment and intangible assets	-44	-48	-4	-8.3
Operating costs	**-477**	**-499**	**-22**	**-4.4**
Operating margin	**591**	**543**	**48**	**8.8**
Net provisions for risks and charges	19	-8	27	
Net adjustments to loans	-106	-157	-51	-32.5
Net impairment losses on other assets	-1	-	1	-
Profits (Losses) on investments held to maturity and on other investments	4	-	4	-
Income (Loss) before tax from continuing operations	**507**	**378**	**129**	**34.1**
Taxes on income from continuing operations	-101	-95	6	6.3
Charges (net of tax) for integration and exit incentives	-19	-1	18	
Effect of purchase price allocation (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	2	2	-	-
Minority interests	-	-	-	-
Net income (loss)	**389**	**284**	**105**	**37.0**

(millions of euro)

	30.06.2016	31.12.2015	Changes amount	%
Loans to customers	26,207	25,818	389	1.5
Direct deposits from banking business	32,807	32,456	351	1.1
Risk-weighted assets	31,005	30,999	6	-
Absorbed capital	2,965	2,965	-	-

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

It bears noting that the income statement figures presented above and commented upon below do not include the results of the Ukrainian Pravex Bank, as well as the FUT business unit into which the bad assets of CIB Bank have been injected. Both these assets have been included in the Capital Light Bank's scope of responsibility.
Furthermore, starting from the Half-Yearly Report as at 30 June 2016 and until the transaction is completed, the accounting balances attributable to ISP Card, a subsidiary with which a sale agreement has been signed, are reclassified under the specific captions relating to discontinued operations, as required by IFRS 5.

In the first half of 2016, the Division's operating income came to 1,068 million euro, growing by 2.5% compared to the same period of the previous year. A detailed analysis shows that net interest income came to 728 million euro, compared to 745 million euro in the first half of 2015 (-2.3%), mainly due to the trends reported by Banca Intesa – Russia (-15 million euro), Banca Intesa Beograd (-6 million euro) and VUB Banka (-5 million euro), which were almost entirely offset by PBZ (+7 million euro) and Bank of Alexandria (+4 million). Net fee and commission income, amounting to 236 million euro, was down compared to the first six months of 2015 (-6.3%). Profits on trading, amounting to 60 million euro, grew by 27.7%, due to increased contributions from CIB Bank (+10 million euro), VUB Banka (+6 million euro), Banka Koper and PBZ (both +3 million euro), only partly absorbed by the decline of Banca Intesa Beograd (-7 million euro) and Banca Intesa - Russia (-2 million euro).

Operating costs, amounting to 477 million euro, were down compared to the first half of 2015 (-4.4%). As a result of the above revenue and cost trends, the operating margin came to 591 million euro, up 8.8%. Income before tax from continuing operations, amounting to 507 million euro, was up compared to 378 million euro in the same period of the previous year (+34.1%), benefiting from lower net adjustments. The Division closed the first half of 2016 with net income of 389 million euro (+37%).
The second quarter reported an operating margin and net income higher than the first quarter.

The Division's intermediated volumes grew compared to the end of December 2015 (+1.3%) owing to positive performance by both loans to customers (+1.5%) and direct deposits from banking business (+1.1%), in the securities issued component.

Business

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

Mission

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

Organisational structure

South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary
Commonwealth of Independent States & South Mediterranean	Presence in Egypt, and the Russian Federation
Other companies	ISP Card, which supports banks in the Division in the payment services segment

Distribution structure

1,075 branches in 11 countries.

South-Eastern Europe

In the first half of 2016, the operating income of the **Privredna Banka Zagreb** Group amounted to 243 million euro (+14.8% compared to the same period of the previous year), thanks to the favourable performance of all the components. Operating costs, amounting to 95 million euro, decreased slightly by -1.2% due to savings in all cost captions. The operating margin came to 148 million euro, up +28.1% on the first half of last year. Income before tax from continuing operations stood at 131 million euro (+43.4%), benefiting from the release of allowances for risks and charges. Lastly, net income came to 102 million euro (+41%).

Banca Intesa Beograd, including Intesa Leasing Beograd, generated operating margin of 62 million euro, down 18.2% on the first six months of 2015. Operating income decreased by 11.4% mainly due to the trend in profits on trading and net interest income. Operating costs were essentially in line with those of the same period of the previous year. Income before tax from continuing operations amounted to 43 million euro, up compared to the first half of the previous year (+3.5%), following the lower adjustments to loans, while net income was 36 million euro (+2.9%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed the first half of 2016 with an operating margin of 9.7 million euro, down slightly on the same period of last year (-1%). This performance is attributable to the increase in operating costs, which more than offset the growing operating income. Income before tax from continuing operations, amounting to 8.3 million euro, increased by 23.9%, while net income amounted to 7.3 million euro (+21%).

Intesa Sanpaolo Bank Albania reported an operating margin of 12 million euro, down on the first half of 2015 (-12.1%), mainly due to the decrease in revenues. Income before tax from continuing operations came to 12 million euro, up on the same period of the previous year (+2.8%) consequently to the recoveries on loans. Net income, amounting to 10 million euro, was essentially stable.

Intesa Sanpaolo Bank Romania recorded an operating margin of 7.7 million euro, down slightly (-2.3%) compared to the first half of 2015: the decline in operating income (-11.3%), primarily attributable to lower interest, was almost entirely offset by the decline in operating costs (-16.5%). The company reported net income of 5.1 million euro, compared to 7.4 million of the same period in 2015, essentially due to higher net adjustments to loans.

Central-Eastern Europe

Banka Koper generated operating income of 47 million euro, up 12.7% compared with the first six months of the previous year as a result of the positive performance of other operating income and profits on trading. Operating costs, were down compared to the same period of 2015 (-3.6%). Net income, amounting to 13 million euro, more than doubled, also due to lower net adjustments to loans.

The **VUB Banka Group** achieved an operating margin of 156 million euro, up 2.3% compared to the first half of the previous year, due to an increase in operating income (+1.9%), attributable to the profits on trading and other operating income. Income before tax from continuing operations, amounting to 115 million euro, increased by 6.1%, while net income amounted to 88 million euro (+6.2%).

The **CIB Bank** Group (excluding the FUT business unit, which now houses the non-performing loans managed by the Capital Light Bank) recorded operating income of 97 million euro, up 25.9% compared to the first half of 2015, mainly due to the increase in profits on trading and other operating income. Operating costs were down (-16.2%) mostly due to lower administrative expenses. Net income showed a positive balance of 29 million euro, compared to a net loss of 7.2 million euro posted in the same period of the previous year.

Commonwealth of Independent States & South Mediterranean

Banca Intesa – Russia closed the first half of 2016 with a net loss of 5.1 million euro, compared to a net loss of 9.8 million euro in the first half of 2015. Operating income decreased (-35.8%) due to the decline in net interest income and profits on trading. Operating costs were down 20%. Net adjustments to loans amounted to 12 million euro, down considerably compared to the same period in 2015.

Bank of Alexandria reported an operating margin of 103 million euro, essentially in line with the first half of 2015. Operating income of 184 million euro declined (-2.6%), mainly as a result of the lower contribution of commission income. Operating costs recorded a drop essentially due to administrative expenses. Net income came to 77 million euro, up 43.4% on the same period of 2015.

Private Banking

(millions of euro)

Income statement	30.06.2016	30.06.2015	Changes	
			amount	%
Net interest income	89	98	-9	-9.2
Profits (losses) on investments carried at equity	8	7	1	14.3
Net fee and commission income	763	766	-3	-0.4
Profits (Losses) on trading	10	22	-12	-54.5
Income from insurance business	-	-	-	-
Other operating income (expenses)	-1	-6	-5	-83.3
Operating income	**869**	**887**	**-18**	**-2.0**
Personnel expenses	-142	-143	-1	-0.7
Other administrative expenses	-108	-109	-1	-0.9
Adjustments to property, equipment and intangible assets	-8	-8	-	-
Operating costs	**-258**	**-260**	**-2**	**-0.8**
Operating margin	**611**	**627**	**-16**	**-2.6**
Net provisions for risks and charges	-28	-12	16	
Net adjustments to loans	7	-	7	-
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**590**	**615**	**-25**	**-4.1**
Taxes on income from continuing operations	-167	-185	-18	-9.7
Charges (net of tax) for integration and exit incentives	-17	-16	1	6.3
Effect of purchase price allocation (net of tax)	-42	-42	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**364**	**372**	**-8**	**-2.2**

(millions of euro)

	30.06.2016	31.12.2015	Changes	
			amount	%
Assets under management	129,609	132,006	-2,397	-1.8
Risk-weighted assets	9,193	8,624	569	6.6
Absorbed capital	908	851	57	6.7

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

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

In the first half of 2016, in a scenario of high market volatility, the Division achieved income before tax from continuing operations of 590 million euro, down 25 million (-4.1%) on the same period of 2015, mainly as a result of the reduction in operating income (-18 million euro) and higher provisions (+16 million euro), which more than absorbed the profits on disposals of bonds in the loan portfolio (+7 million euro).
The performance of operating income can be attributed to the reduction in the interest margin (-9 million euro), the lower income on trading activities (-12 million euro) as well as to the net fee and commission income which, also due to the absence of performance fees, recorded a drop of 3 million euro. Operating costs decreased by 2 million euro following the fall of personnel and administrative expenses, while provisions recorded an increase of 16 million euro mainly due to the discounting of the provisions for risks, which, for the declining trend of interest rates, led to a higher charge to the income statement. Income before tax from

continuing operations amounted to 590 million euro, (-25 million euro compared to the first six months of the previous year), and net income stood at 364 million euro (-8 million euro, equal to -2.2%).

As at 30 June 2016, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 188.2 billion euro (-0.7 billion euro compared to the end of 2015). Assets under management came to 129.6 billion euro, down 2.4 billion euro, while assets under administration reached 58.6 billion euro, up by 1.7 billion euro from the beginning of the year. This trend is attributable to the unfavourable market performance, which was partially offset by the positive performance of net inflows. For the second consecutive half the uncertainties of the financial markets negatively affected the performance of customers' wealth, though the Division managed to contain the unfavourable effect thanks to the excellent results obtained with the net inflows, which remained constantly positive in the half years. In detail, inflows to assets under management, negative for 396 million euro, were affected by the high volatility that characterized the financial markets in the first half of the year, down 7.1 billion on the same period of 2015. Assets under administration showed a sharp increase with a positive balance of 4.6 billion, compared to net outflows of 2.3 billion reported in the first six months of 2015. During the half, customers interested in reducing the risk level of investments while waiting for a repositioning of asset management products to benefit from the market recovery opted for this component.

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 approximately 5,000 Fideuram and Sanpaolo Invest financial advisors.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of over 800 in-house private bankers.
SIREFID	Company specialised in the provision of fiduciary services.
Distribution structure	Network of 225 branches in Italy, 3 branches abroad and 5,887 private bankers.

Asset Management

(millions of euro)

Income statement	30.06.2016	30.06.2015	Changes amount	%
Net interest income	-	-	-	-
Profits (losses) on investments carried at equity	34	39	-5	-12.8
Net fee and commission income	261	329	-68	-20.7
Profits (Losses) on trading	4	1	3	
Income from insurance business	-	-	-	-
Other operating income (expenses)	-	2	-2	
Operating income	**299**	**371**	**-72**	**-19.4**
Personnel expenses	-28	-31	-3	-9.7
Other administrative expenses	-36	-36	-	-
Adjustments to property, equipment and intangible assets	-	-	-	-
Operating costs	**-64**	**-67**	**-3**	**-4.5**
Operating margin	**235**	**304**	**-69**	**-22.7**
Net provisions for risks and charges	-	-1	-1	
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**235**	**303**	**-68**	**-22.4**
Taxes on income from continuing operations	-51	-75	-24	-32.0
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-5	-5	-	-
Net income (loss)	**179**	**223**	**-44**	**-19.7**

(millions of euro)

	30.06.2016	31.12.2015	Changes amount	%
Assets under management	230,298	226,885	3,413	1.5
Risk-weighted assets	1,053	1,135	-82	-7.2
Absorbed capital	117	124	-7	-5.6

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

The **Asset Management Division** pursues the mission of developing the best asset management solutions aimed at the Group's customers and its presence on the open market segment through the subsidiary Eurizon Capital and its investees.

Overall, total assets managed by Eurizon Capital at the end of June 2016 came to 230.3 billion euro, growing (+1.5% equal to +3.4 billion euro) since the beginning of the year, as a result of net inflows against a negative financial market performance. During the first half net inflows came to 3.8 billion euro (of which 2.2 billion euro in the second quarter), mainly due to the contribution from the institutional mandates (+5.9 billion euro of which 2.4 billion euro in the second quarter), mostly focused on insurance contracts, which more than offset the outflows concerning the retail sale of portfolio management schemes (-2.5 billion euro of which -1.2 billion euro in the second quarter). Mutual funds show an inversion in inflows moving from -0.5 billion euro in the first quarter of 2016 to +0.9 billion euro in the second quarter, standing at +0.4 billion since the beginning of the year.
As at 30 June 2016, Eurizon Capital's market share of assets under management was 14.6% (gross of duplications), up compared to the end of December 2015. Excluding the closed-end funds segment, in which the company does not operate, the share of assets under management at the end of June 2016 rose to 14.9%.
Operating income for the first half of 2016, amounting to 299 million euro, decreased by 19.4% compared to the same period of the previous year, mainly in relation to the negative performance of net fee and commission income (-20.7%). Net fee and

commission income performance is due to the zeroed commissions on assets under management, compared to the 78 million euro in the same period of 2015, only partly absorbed by the increase in management fees related to the development of average assets under management, which considerably exceeded the level for the first half of 2015 (+10 billion euro). Operating costs fell on the same period of the previous year (-4.5%) thanks to the streamlining of personnel expenses and administrative expenses; on the latter the benefit was nevertheless offset by the impact of the increase in assets under management on costs related to the products, and in particular on the Fund Administration services. As a result of the above revenue and cost trends, the operating margin came to 235 million euro, down 22.7%. The Division closed the first half of 2016 with net income of 179 million euro, down compared to the same period of the previous year (-19.7%).

Among the significant events following the end of the half year, worth noting is that, at the beginning of July, the purchase of 65% of the company Eurizon SLJ Capital Limited headquartered in London was finalised.
This transaction took place via a capital increase of SLJ Capital Limited (which then changed its name to Eurizon SLJ Capital Limited) to serve the contribution of all the assets of SLJ Macro Partners LLP. Following the transfer of the assets, SLJ Macro Partners LLP started liquidation.
The company, established with the founding partners of SLJ Macro Partners LLP, is engaged in research (main business line), providing investment and consultancy services with a macroeconomic/top down approach, and in currency management (active FX overlay). The transaction is among the international development initiatives included in the Business Plan 2014-2017.

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 (including fund users), to which it offers a wide range of specific investment products and services.
Epsilon Associati SGR	Specialised in managing structured credit products and mutual funds using quantitative methods and 51% owned by Eurizon Capital and the remaining 49% by Banca IMI.
Eurizon Capital SA (Luxembourg)	Specialised in managing Luxembourg mutual funds with low tracking error.
Eurizon Capital (HK) Ltd (Hong Kong)	A company wholly owned by Eurizon Capital SA, established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 50.12% owned by Eurizon Capital SA, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
Penghua Fund Management Company Limited	Chinese fund manager 49% owned by Eurizon Capital SGR.
Allfunds Bank S.A.	A multimanager distribution platform of asset management products intended for institutional investors, 50% owned by Eurizon Capital SGR and 50% by AFB SAM Holdings S.L. (Santander Group).

Insurance

(millions of euro)

Income statement	30.06.2016	30.06.2015	Changes amount	%
Net interest income	-	-	-	-
Profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	-	-	-	-
Profits (Losses) on trading	-	-	-	-
Income from insurance business	675	651	24	3.7
Other operating income (expenses)	-2	-1	1	
Operating income	**673**	**650**	**23**	**3.5**
Personnel expenses	-33	-32	1	3.1
Other administrative expenses	-41	-40	1	2.5
Adjustments to property, equipment and intangible assets	-1	-1	-	-
Operating costs	**-75**	**-73**	**2**	**2.7**
Operating margin	**598**	**577**	**21**	**3.6**
Net provisions for risks and charges	-1	-	1	-
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-8	-	8	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**589**	**577**	**12**	**2.1**
Taxes on income from continuing operations	-184	-168	16	9.5
Charges (net of tax) for integration and exit incentives	-2	-1	1	
Effect of purchase price allocation (net of tax)	-11	-15	-4	-26.7
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**392**	**393**	**-1**	**-0.3**

(millions of euro)

	30.06.2016	31.12.2015	Changes amount	%
Assets under management	139,536	132,948	6,588	5.0
Risk-weighted assets	-	-	-	-
Absorbed capital	4,591	4,618	-27	-0.6

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

The **Insurance Division** oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers.

In the first half of 2016, income before tax from continuing operations was 589 million euro, recording growth of 12 million euro (+2.1%) compared to the same period of the previous year as a result of higher operating income (+23 million euro), and a moderate growth of costs (+2 million euro). Income from insurance business was 675 million euro, recording growth of 24 million (+3.7%) thanks to the increase in the technical margin and the positive contribution of the net investment result, despite market volatility. The cost/income ratio (11.1%) was essentially in line with that of the same period of the previous year.
Net of the extraordinary components deriving from the sale of Union Life, equal to 58 million euro, recorded in the first half of 2015, the growth in operating income equalled 13.7%.
Direct deposits from insurance business, amounting to 139,536 million euro, increased by 5% compared to the end of December 2015, mainly as a result of the development of technical reserves and financial liabilities of the insurance segment designated at fair value.

Collected premiums for life policies in the half year amounted to 12.8 billion euro, slightly lower than the one recorded in the same period of 2015, but at high levels in any case when considering the negative financial market performance. Also in the first half of 2016 the shift continued of offerings towards class III products, both through the new unit-linked protected product distributed by the Banca dei Territori Division and the multi-line hybrid form.
Deposits from the non-life business, amounting to 0.2 billion euro, recorded a favourable performance on the same period of the previous year, with growth in all product lines, particularly with regard to credit protection products.

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 owns 100% of Intesa Sanpaolo Life, specialising in the area of unit-linked products, Intesa Sanpaolo Assicura, dedicated to the non-life business, and Intesa Sanpaolo Smart Care, a company specialising in the creation of innovative digital solutions to combine with insurance products.
Fideuram Vita	Specialised in offering insurance, pension and personal and asset protection products within the Fideuram Group.

Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for the Capital Light Bank business unit, Treasury and ALM.

The Corporate Centre Departments (essentially the Treasury Department and the Capital Light Bank) generated an operating loss of 369 million euro in the first half of 2016, compared to the operating loss of -209 million euro for the same period of the previous year. This performance was predominantly due to the worsening of the profits on trading, which during the first six months of last year had benefited from particularly favourable market conditions, and to expenses associated with contributions to the resolution fund.
The revenue performance was reflected in all of the main income statement items and the net loss, which came to 1,018 million euro, compared to -765 million euro reported in the same period of 2015.

Capital Light Bank

During the first half of 2016, the initiatives undertaken on the assets held by CLB which were contributed with the definition of the Business Plan 2014-2017, have allowed assets to be reduced by about 3 billion euro, bringing the total deleverage to over 13 billion euro since 2013. In addition, on the assets contributed in the first half of 2015, and in particular on the former Merchant Banking and Accedo investments and funds (the product company specialised in extra-captive consumer credit), a deleverage of about 3 billion euro should be noted. This reduction is almost entirely attributable to the sale without recourse of a portfolio of performing consumer loans secured by the assignment of one-fifth of salary and pension for about 1.6 billion euro and a portfolio of performing consumer loans for about 1 billion euro, included among the assets of Accedo. With regard to the bad loan portfolio under management, the recovery activity continued, both internally and through external servicers, with revenues exceeding 600 million euro that confirm the ongoing improvement trend (approximately +20% on the same period of the previous year), also thanks to the benefits obtained from the latest reorganisations of the Loan Recovery Department. With regard to bad leasing loans managed by Provis, which obtained the authorisation to the registration in the Single Register of Financial Intermediaries pursuant to art. 106 of Legislative Decree no. 385/1993, monitoring activities on repossessed assets, particularly movable assets, continued in order to identify their best market placement, while the integration projects of the IT systems are currently underway, as defined simultaneously with the contribution of assets to the company. During the first half year, Re.O.CO. carried out activities with the intention of managing real estate collateral in a more pro-active manner. This entails both direct involvement in auctions and "auction support" whereby external investors are encouraged to intervene. Cases for intervention were chosen carefully, so as to reconcile the objective of maximising the recovery of bad loan positions secured by real-estate assets with the goal of minimising the investment of additional capital; in the first six months, following the involvement in auctions and auction support on about 70 properties, property was acquired for an approximate value of 2 million euro.
Concerning the international subsidiaries, the deleveraging activities involving the Ukrainian Pravex bank continued, in line with the Bank's business plan and given the country's dramatic political and economic situation. During the first six months of the year, the FUT division of the Hungarian subsidiary CIB Bank positively continued its derisking activity, particularly thanks to loans to customers that, following the conversion into local currency, feature a lower level of risk. Relating to non-strategic investments, a number of minority stakes were sold.

Treasury services

The Treasury Department includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks and settlement risks.

In the first half of 2016, Intesa Sanpaolo confirmed its role of "system-wide bank" for payment systems in euro, obtaining the certification as "critical participant" in Target 2 by the European Central Bank and, in the month of May, the validation of the processes relating to this activity to obtain the ISO 22301 external certification. With regard to the Bank's projects, the collaboration at European level (EBA and SWIFT) continued, whose objective is the creation of market infrastructures for the settlement of "Instant payments": these projects are part of a broader context for the development of settlement services promoted by the European Central Bank, with a view to adapt its platforms to the continuous technological evolution and the service standards required by customers.

In the first few months of the year, the **Money Markets** were characterised by deep uncertainties on the outlook of the global economy, which generated significant volatility and a marked aversion to risk by investors; these tensions then led the European Central Bank to announce new measures of monetary stimulus such as the cut in official rates and especially the launch of a new series of T-LTRO auctions. In the second quarter of 2016 the main catalyst was the referendum on the United Kingdom leaving the European Union. Right up to the day before the referendum, the markets had enjoyed an overall stability with few significant elements at macroeconomic level and with the European Central Bank carefully assessing the development of the markets and the impacts of the measures announced in the previous months. Despite the fluctuating trend of the forecasts and polls concerning the referendum, the sensation, especially in the last days, was that United Kingdom remaining in the European Union was the only possible result; the outcome of the referendum consequently increased market volatility, with the collapse of the pound sterling and a mass flight-to-quality in every asset-class. The yield on ten-year German Bunds broke the zero barrier taking it into negative territory. The perception of the outlook changed not only for the European economy but also at a global level, with rate curves that suddenly priced in additional monetary easing measures in Europe, Great Britain and even in the United States.
In turn the Fed, after being on the verge of increasing official rates, reconsidered its monetary policy strategies especially in light of the disappointing figures coming from the domestic labour market and the potential risk of slowdown of the world economic framework also linked to the impact of Brexit.

In the Eurosystem, the level of liquidity remained high, averaging around 800 billion euro in the second quarter; the last period was characterised by the eighth auction of TLTRO1 and, above all, the first auction of the second series of TLTRO2 in which the Intesa Sanpaolo Group participated by obtaining funds for 35.1 billion euro (at the same time the funds of the previous TLTRO1 loan were reimbursed); in total the exposure towards the ECB stands at 36 billion euro. With reference to Intesa Sanpaolo's short-term securities funding programme, in the first quarter funding remained stable to then record a drop in the second quarter since investors decided to renew the short-term loans with the purchase of our issues with a longer maturity, for reasons to be attributed to the negative yield on short-term maturities.

In light of the reference context, the investment strategies concerning the **Government Bonds Portfolio** were directed, during the entire half, at increasing the interest margin, while keeping a certain degree of diversification of the government risk. Starting from the end of the first quarter, the volumes and the credit sensitivity of the non-government portfolio were decreased, following the compression of spreads triggered by the policies of the ECB. In the first quarter the repurchase agreement market witnessed a gradual expansion of spreads between repo rates on the government bonds of core countries and those on Italian government bonds, which have slightly increased during the second quarter following the measures announced by the ECB relating to the strengthening of the Quantitative Easing programme, a phenomenon which for some time now has tended to focus on the month/quarter-end maturities due to the greater attention on the positions represented in the financial statements. At the end of June, Intesa Sanpaolo's cash deployment remain high, even if slightly down compared to the previous quarter.

Medium/long-term funding recorded a slight decrease in deposits compared to the previous quarter.
In the retail market, the total issues of Group securities placed in the first half year through own and third-party networks amounted to 3.8 billion euro: of which 58% consisted of structured bonds (primarily represented by index-linked structures) and 42% of plain vanilla issues. A breakdown by average maturity shows a concentration ranging between 5- and 7-year maturities (with a weight of 78%), whilst 22% is constituted by securities with maturities in the interval of 8-10 years (12%) and 2-4 years (10%).
In the international markets, approximately 5.6 billion euro in unsecured institutional funding transactions were completed; these include a perpetual Additional Tier 1 instrument (AT1) of 1.25 billion euro that can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter, a T2 subordinated instrument of 1.4 billion euro, and a Formosa bond in USD for the Asian market for a value of 57.6 million euro. In the context of the ISP CB Pubblico covered bond issue programme, the eighth and ninth series (respectively for 1 and 2.2 billion euro, retained) were redeemed in advance with the subsequent issue of the eleventh floating-rate series for 1.1 billion euro with a 2-year maturity, and the twelfth series, again with a floating rate, for 1.275 billion euro with a 7-year maturity, both retained and subscribed by the Parent Company. The multi-originator programme guaranteed by ISP OBG saw the issue of the twentieth floating-rate series for an amount equalling 1.6 billion euro with a 7-year maturity, also retained and subscribed by the Parent Company.

As regards management of the collateral eligible for refinancing operations at the central banks, Intesa Sanpaolo uses the A.Ba.Co. (Collateralised Bank Assets) procedure. (Collateralised Bank Assets), which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators". At the end of the half year, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was about 10.6 billion euro.

Active Value Management (AVM)

With regard to Asset & Liability Management, operational management of the interest rate risks of the Group's banking book – in the segment over 18 months – is handled by the ALM structures under the supervision of the Financial and Market Risk Department. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve at the various maturities; moreover specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group's Financial Risks Committee, within the limits established by the Management Body. The ALM structure actively supports the Committee's decision-making activity by formulating analyses and proposals. The structural liquidity risk is managed by identifying expected liquidity mismatches by maturity bands, on the basis of internal liquidity policies defined by the Group.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
30.06.2016	6,541	1,558	529	8,628
30.06.2015	7,170	1,538	431	9,139
% change [(a)]	-8.8	1.3	22.7	-5.6
Loans to customers				
30.06.2016	302,862	41,195	16,183	360,240
31.12.2015	294,900	37,829	14,604	347,333
% change [(b)]	2.7	8.9	10.8	3.7
Direct deposits from banking business				
30.06.2016	327,447	50,821	8,489	386,757
31.12.2015	310,520	51,337	10,343	372,200
% change [(b)]	5.5	-1.0	-17.9	3.9

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

[(a)] The change expresses the ratio between 30.06.2016 and 30.06.2015

[(b)] The change expresses the ratio between 30.06.2016 and 31.12.2015.

With regard to subdivision by geographical areas, the activities of the Intesa Sanpaolo Group continued to be concentrated primarily in the Italian market. Italy accounted for 76% of revenues, 84% of loans to customers and 85% of direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation and in the Mediterranean area (Egypt).
As regards the performance of operations in the first half of 2016 of the intermediated volumes, loans to customers rose in all three businesses, while funding increased in Italy, was slightly down in Europe and declined in the rest of the world. As regards the operating income, the decline recorded in Italy was offset, though with more contained absolute values, in Europe and in the rest of the world.

Risk management

BASIC PRINCIPLES

The Intesa Sanpaolo Group's risk acceptance policies are defined by the Board of Directors and the Management Control Committee that perform, respectively, management and control functions. The Board of Directors carries out its activity through specific internal committees, among which the Risk Committee. The Corporate Bodies are assisted by the action of management committees, among which mention should be made of the Group Risk Governance Committee, as well as the support of the Chief Risk Officer, reporting directly to the Chief Executive Officer.
The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.
The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiaries' Management Bodies.
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 that could be borne by the Group over a period of one 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 under ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

BASEL 3 REGULATIONS AND THE INTERNAL PROJECT

With effect from 1 January 2014, the reforms of the accords by the Basel Committee ("Basel 3") were implemented in the EU legal framework. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures. In doing so, the Committee maintained the approach based on three Pillars, which was at the basis of the previous capital accord, known as "Basel 2", supplementing and strengthening it to increase the quantity and quality of intermediaries' available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.
Therefore, the EU implemented "Basel 3" through two legislative acts:

– Regulation (EU) No. 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
– Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

EU legislation is complemented by the provisions issued by the Bank of Italy and referring to Circular no. 285 of 17 December 2013, which contains the prudential supervision regulations applicable to banks and Italian banking groups. The provisions were reviewed and updated to adjust the internal regulations to include the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and to the needs detected while supervising banks and other intermediaries.

In order to comply with the new rules envisaged by Basel 3, the 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.
Information on own funds, which are calculated according to the Basel 3 rules, and on capital ratios of the Group is provided in the section on balance sheet aggregates: Own funds and capital ratios, and in the document Basel 3 - Pillar 3.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.
Progressively, the scope of application has been gradually extended to include the SME Retail and Retail Mortgage portfolios, as well as other Italian and international Group companies, as shown in the following table.
There were no changes in the scope of application compared to 31 December 2015.

<table>
<tr><th>Company</th><th>Corporate
FIRB</th><th>Corporate
AIRB LGD</th><th>SME Retail
IRB LGD</th><th>Mortgage
IRB LGD</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="7">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="6">Jun - 2010</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio in Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Mediocredito Italiano</td><td>n.a.</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Jun - 2010</td></tr>
<tr><td>Cassa di Risparmio dell'Umbria</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Dec - 2013</td><td>n.a.</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>Jun - 2014</td><td>Jun - 2012</td></tr>
</table>

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013, followed by an additional validation visit in March 2015. In the same month an AIRB authorisation request was presented to the Supervisory Authority for this portfolio. The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.
For OTC derivatives, with reference to the Parent Company Intesa Sanpaolo and to Banca IMI, the Bank of Italy granted the authorisation to use the internal counterparty risk model for regulatory purposes, starting from the first quarter of 2014. For the Banks in the Banca dei Territori Division, an application for authorisation to use the internal model for regulatory purposes was submitted to the Supervisory Authority in 2015, while for management purposes, the advanced risk estimate measures were implemented in November 2014.
In 2015 an application for authorisation to use internal models for regulatory purposes was also submitted for Securities Financing Transactions (SFT - Repos and securities lending) products. For management purposes, the advanced risk measurement methods were implemented for SFT in May 2015.

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 adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Supervisor in April 2016.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, the exercise conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.
The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information as part of the prudential review process of 2016. The results thus allowed the competent authorities to assess banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.
Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) for Intesa Sanpaolo that emerged from the stress test for 2018, the final year of the simulation, came to 12.8% in the baseline scenario and 10.2% in the adverse scenario, compared to the starting point of 13% recorded as at 31 December 2015. This includes a reduction of 50 one-hundredths of a point – in both scenarios – for the move from the calculation criteria in force for 2015 to those in force for 2018.

As mentioned, 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 Group's strategies, powers and rules for the granting and managing of loans 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 Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with respect to loans to customers, risk is measured using internal rating models which change according to the counterparty's operating segment.

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, deems unlikely 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). The latter do not constitute a separate category of non-performing assets. Rather, they constitute a subset of both the previous categories of "Non-performing exposures with forbearance measures" and of the performing assets "Other forborne exposures", depending on the level of risk of the exposure when renegotiation occurs or as a consequence thereof.
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)

	30.06.2016			31.12.2015			Changes
	Gross exposure	**Total adjustments**	**Net exposure**	**Gross exposure**	**Total adjustments**	**Net exposure**	**Net exposure**
Bad loans	38,570	-23,411	15,159	39,150	-24,177	14,973	186
Unlikely to pay	21,993	-5,433	16,560	22,725	-5,634	17,091	-531
Past due loans	777	-144	633	1,239	-217	1,022	-389
Non-performing loans	**61,340**	**-28,988**	**32,352**	**63,114**	**-30,028**	**33,086**	**-734**
of which forborne	***11,642***	***-3,375***	***8,267***	***10,856***	***-3,151***	***7,705***	***562***
Performing loans	315,187	-1,954	313,233	302,875	-2,012	300,863	12,370
of which forborne	*7,506*	*-225*	*7,281*	*7,917*	*-218*	*7,699*	*-418*
Performing loans represented by securities	14,894	-239	14,655	13,633	-249	13,384	1,271
of which forborne	*118*	-	*118*	*137*	*-2*	*135*	*-17*
Loans to customers	**391,421**	**-31,181**	**360,240**	**379,622**	**-32,289**	**347,333**	**12,907**

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

As at 30 June 2016, the Group's non-performing loans, net of adjustments, came to 32.4 billion euro, below the levels of 2015 (-2.2%). While non-performing loans decreased as a percentage of total loans to customers at 9%, the non-performing assets coverage ratio was 47.3%.

In further detail, bad loans came to 15.2 billion euro, net of adjustments, in the first half of 2016, up 1.2% from the beginning of the year, and represented 4.2% of total loans (4.3% at the end of 2015). During the same period, the coverage ratio was 60.7% (61.8% in December 2015). Loans included in the unlikely to pay category amounted to 16.6 billion euro, down by 3.1%, accounting for 4.6% of total loans to customers, with a coverage ratio of 24.7%. Past due loans totalled 633 million euro, down 38.1% compared to the beginning of the year, with a coverage ratio of 18.5%. Forborne exposures are generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority with the aim of harmonising the classification of the definitions of non-performing loans and forbearance practices (renegotiation for the borrower's financial difficulties) at the European level. Within the non-performing loan category, forborne exposures amounted to 8.3 billion euro, with an average coverage ratio of 29%, whereas those in the performing loan category were slightly lower (7.3 billion euro).

The coverage ratio of performing loans was 0.6%.

MARKET RISKS

TRADING BOOK

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

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
Effective from the report as at 30 September 2012, both banks have received authorisation from the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the Incremental Risk Charge into the calculation of the capital requirement for market risks.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios (the full look-through approach).
The risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The requirement for stressed VaR is included when determining capital absorption effective from 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":
- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of this document, the period relevant to the measurement of stressed VaR had been set as 1 January to 31 December 2011 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

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

In the second quarter of 2016, market risks generated by Intesa Sanpaolo and Banca IMI decreased, compared to the averages for the first quarter of 2016. The average VaR for the period totalled 97 million euro, compared to 105 million euro in March 2016.

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

(millions of euro)

	2016 average 2nd quarter	2016 minimum 2nd quarter	2016 maximum 2nd quarter	2016 average 1st quarter	2015 average 4th quarter	2015 average 3rd quarter	2015 average 2nd quarter	2015 average 1st quarter
Intesa Sanpaolo	11.5	10.2	14.1	14.9	13.2	11.6	13.8	12.1
Banca IMI	85.5	70.8	122.4	90.0	85.0	104.7	71.1	64.6
Total	**97.0**	**82.4**	**134.0**	**104.9**	**98.3**	**116.3**	**84.9**	**76.7**

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

Compared to the previous year, the risk measures were up in the first half: for 2016 the average Group VaR is 101 million euro. In 2015 the average was approximately 81 million euro.

(millions of euro)

	2016 average 1st half	2016 minimum 1st half	2016 maximum 1st half	2015 average 1st half	2015 minimum 1st half	2015 maximum 1st half
Intesa Sanpaolo	13.2	10.2	17.5	12.9	6.0	18.5
Banca IMI	87.7	64.8	122.4	67.9	54.0	113.6
Total	**100.9**	**78.4**	**134.0**	**80.8**	**64.5**	**122.7**

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

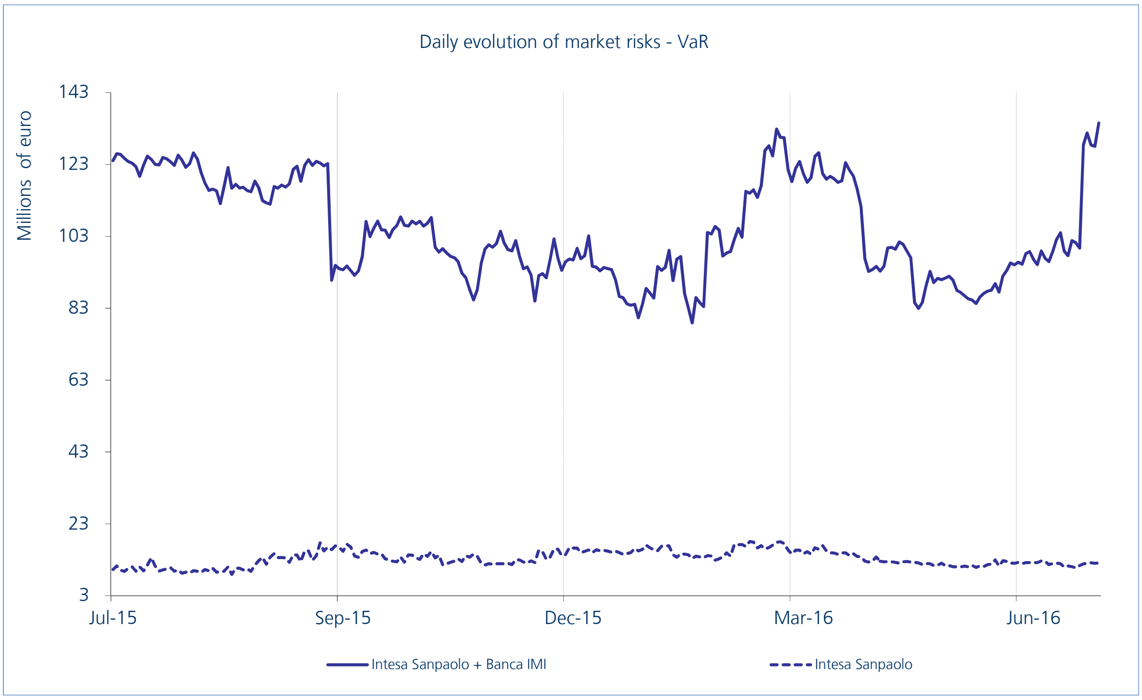
For Intesa Sanpaolo, the breakdown of risk profile in the second quarter of 2016, with regard to the various factors, shows the prevalence of the risk generated by foreign exchange, which accounted for 45% of total VaR (primarily linked to hedge positions of banking book entries, excluding which, the component relating to interest rate risk is the main one); for Banca IMI, credit spread risk was the most significant, representing 82% of total VaR.

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

2nd quarter 2016	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	5%	12%	18%	16%	45%	3%	0%
Banca IMI	5%	0%	8%	82%	1%	2%	2%
Total	**6%**	**1%**	**15%**	**69%**	**5%**	**2%**	**2%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the second quarter of 2016, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The trend of VaR is mainly due to Banca IMI. The second quarter of 2016 first saw a reduction in the VaR due to sales and the exit from volatility scenarios, and then, starting in mid-May, the measures recorded slight growth as a result of purchases of government bonds (taken on within the limits approved for 2016). On 24 June, following the outcome of the referendum in the UK (with the "leave" winning) the markets recorded volatility in credit spreads companied by the decrease in interest rates and share prices. The new scenario generated an increase in Group VaR, which recorded a peak of 134 million euro at the end of the period. However, risk measures remained contained within the assigned limits, and in the first few days of July, showed a slight decrease.



Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of June is summarised in the table below.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	volatility +10% and prices -5%	volatility -10% and prices +5%	+40bp	lower rate	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	-3	8	-36	87	311	-299	27	-22	29	-16

In particular:

- on stock market positions, a 5% decrease in stock prices with a resulting 10% increase in volatility would have led to a loss of approximately 3 million euro;
- on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 36 million euro, whereas a scenario with near zero rates would have led to potential gains;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 299 million euro loss;
- on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 22 million euro would be recorded;
- lastly, on commodity exposures, gains would be recorded in case of a 50% decrease in prices; conversely, in case of an increase, the potential losses would be equal to 16 million euro.

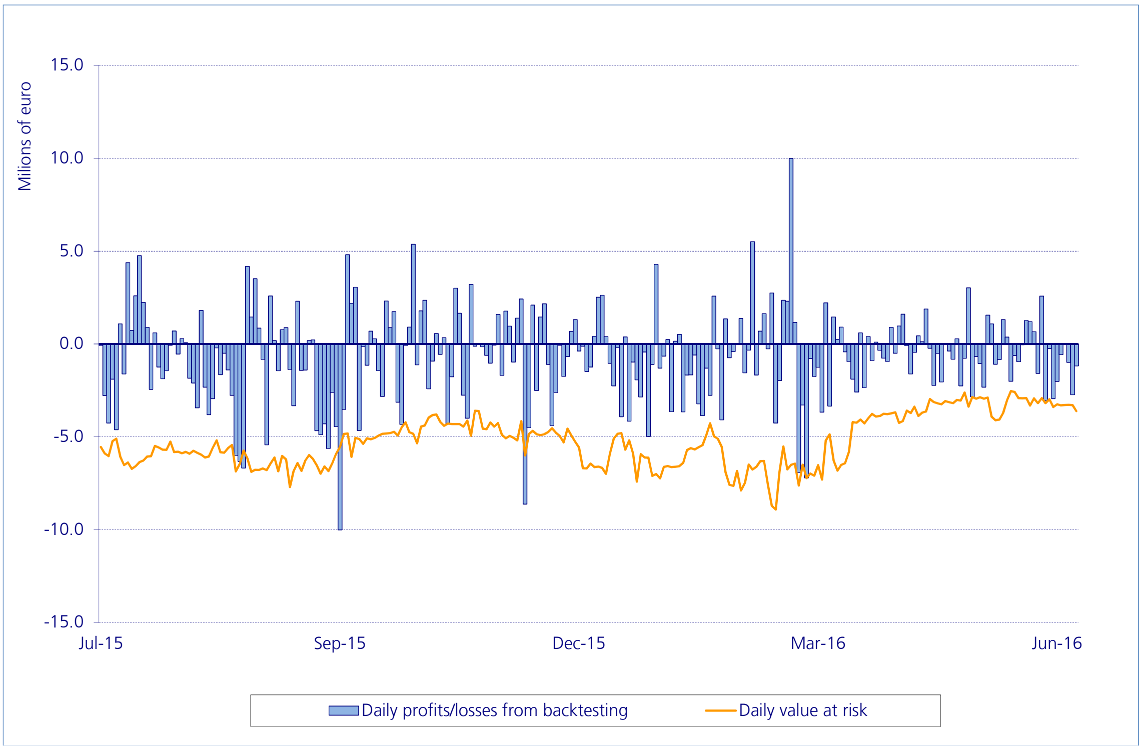
Backtesting

The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

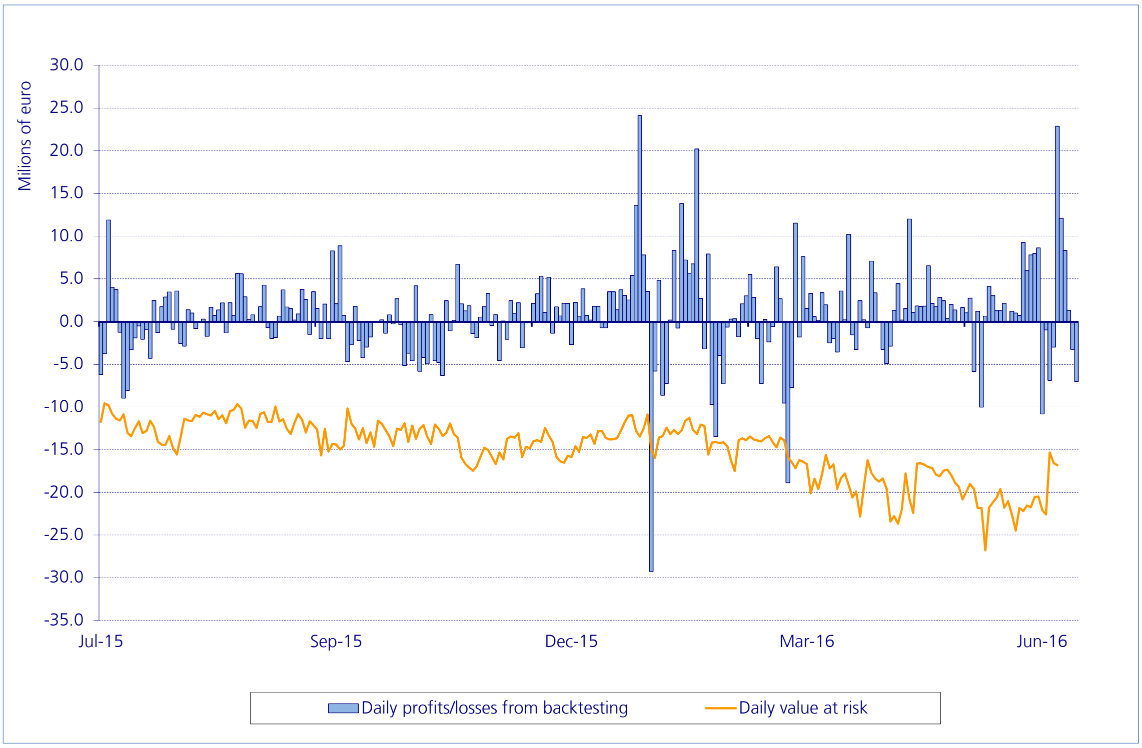
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on valuation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

Backtesting in Intesa Sanpaolo
There were three backtesting exceptions during the last year linked to the effects of the Greek debt crisis, and to equity market volatility at the end of August 2015.



Backtesting in Banca IMI
Banca IMI's two backtesting exceptions are connected to the increase in the volatility of financial spreads recorded during the first quarter of 2016.



BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and by IMI Investimenti.
The following methods are used to measure financial risks of the Group's banking book:

– Value at Risk (VaR);
– Sensitivity Analysis.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
The Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of +100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits. Furthermore, interest margin sensitivity is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio that is being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets or liabilities (micro hedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of on demand deposits (core deposits) and on the already fixed portion of variable-rate loans.
Moreover, since the end of 2015 the Group has extended the use of macro hedging to a portion of fixed-rate loans, adopting an open-portfolio macro hedging model for a portion of fixed-rate loans according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.

In the first six months of 2016, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 768 million euro, settling at 1,100 million euro at the end of June 2016, almost entirely concentrated on the euro currency; this figure compares with 547 million euro at the end of 2015.
Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 642 million euro at the end of June 2016 (535 million euro at the end of 2015).
Interest rate risk, measured in terms of VaR, recorded an average of 61 million euro in the first six months of 2016 (139 million euro at the end of 2015), with a maximum value of 85 million euro and a minimum value of 40 million euro; the latter figure coincides with the value at the end of June 2016. Price risk generated by minority stakes in listed companies, mostly held in the AFS (available for sale) category and measured in terms of VaR, recorded an average level of 59 million euro in the first six months of 2016 (27 million euro at the end of 2015), with a minimum value of 16 million euro and a maximum value of 146 million euro; the latter figure coincides with the value at the end of June 2016.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows a sensitivity to a 10% negative shock equal to 6.8 million euro at the end of June 2016.

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).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

During 2016 the corporate bodies of Intesa Sanpaolo approved the update of the "Guidelines for Group Liquidity Risk Management", implementing the latest 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. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision 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.

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

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

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, in order to respond to periods of tension, including extended periods, on the various funding sourcing markets, also by establishing adequate liquidity reserves in the form of liquid securities on private markets and securities eligible for refinancing with Central Banks. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio) respectively.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The Liquidity Coverage Ratio (LCR) is aimed at strengthening the short-term liquidity risk profile, ensuring a detention of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash in the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the regulations. Delegated Regulation (EU) 2015/61 implies a gradual introduction of the regulatory framework of LCR according to the following schedule: from 1 October 2015 to 31 December 2015 = 60%; from 1 January to 31 December 2016 = 70%; from 1 January to 31 December 2017 = 80%; from 1 January 2018 = 100%.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: 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. The NSFR's regulatory requirement is still subject to a period of observation: the European Commission is required to present a legislative proposal that will come into force from 2018.

The Guidelines for Group Liquidity Risk Management also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage a minimum limit on the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.

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

In the first six months of 2016 the Group's liquidity position remained largely within the limits provided for in the Group's Liquidity Policy in force: both indicators (LCR and NSFR) were largely exceeded, already reaching a level above the limits under normal

conditions. As at 30 June 2016, the eligible liquidity reserves for the Central Banks, considering cash components, came to 130 billion euro (117 billion euro at the end of December 2015), of which 69 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015).
Also the stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

INFORMATION ON FINANCIAL PRODUCTS

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

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

General principles

This chapter summarises the criteria used by the Group to measure the fair value of financial instruments. These criteria are substantially unchanged with respect to those illustrated in detail in the Annual Report 2015, to which reference is made for more information.
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 Department and also applied to the Parent Company and to all consolidated subsidiaries.
The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. This definition of fair value assumes that the bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
A bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Fair value measurement assumes that the sale of an asset or transfer of a liability takes place in the principal active market for the asset or liability or, in the absence of a principal active market, in the most advantageous market for the asset or liability.
The Intesa Sanpaolo Group identifies the principal market for a financial asset or liability as the market in which it generally operates.
The Group considers a market as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry companies, pricing service or authorised entities.
In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, expansion or increase of the bid-ask spread, reduction or total lack of market for new issues, limited publicly-available information), analyses of the transactions or of the quoted prices are carried out.

Fair value hierarchy

The fair value of financial instruments is determined according to a hierarchy of criteria based on the origin, type and quality of inputs. In detail, this hierarchy assigns top priority to (unadjusted) quoted prices in active markets and less importance to unobservable inputs. As a consequence, three different hierarchical levels of fair value are identified:
- level 1: input represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the entity as at the measurement date;
- livello 2: input other than quoted prices included in level 1, directly or indirectly observable for the assets or liabilities to be measured;
- level 3: unobservable input for the asset or liability.

The document "Fair Value Hierarchy Rules" 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 close 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.
When no quotation 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 – in whole or in part but primarily – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In the 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.

In the case of instruments classified as level 3, the calculation of the fair value of certain types of financial instruments is based on valuation models based on specific hypotheses regarding the development of future cash-flows, which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator.

Valuation of financial instruments and Model Risk Management

The valuation process of financial instruments entails the following phases:

– Identification of the sources for measurements: for each asset class, the Fair Value Policy and the Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
– Certification and treatment of market data for periodic measurements: this stage consists of the accurate verification, at each accounting assessment date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
– Certification of valuation models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement.
– Periodic monitoring of the consistency of valuation models over time: monitoring consists of verifying the adherence to the market of the valuation model in order to discover any gaps promptly and start the necessary verifications and interventions.

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a series of analyses and checks carried out at different stages, aimed at certifying the various valuation methods used by the Parent Company ("Model Validation"), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market ("Model Risk Monitoring") and at identifying any adjustments to be made to the valuations ("Model Risk Adjustment", see the section below "Adjustments adopted to reflect model risk and other uncertainties related to the valuation").

Adjustments adopted to reflect model risk and other uncertainties related to the valuation

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In addition to the adjustments relating to the abovementioned factors, also other types of adjustments ("Mark-to-Market Adjustment") relating to other factors capable of influencing the valuation are included. These factors essentially involve:

– high and/or complex risk profile;
– position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration);
– valuation difficulties due to the lack of liquid and observable market parameters.

The management of the Mark-to-Market Adjustment process is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Financial and Market Risks Department. For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the process for the approval of new products, upon the proposal of the Financial and Market Risks Department.

Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA. In line with market practices, in the past the Intesa Sanpaolo Group introduced the Credit/Debt Value Adjustment (bCVA), and, starting from 31 March 2016, it implemented the Funding Value Adjustment (FVA) in the valuation of OTC derivatives. The latter assessment component takes into consideration the liquidity risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

Fair value hierarchy

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

(millions of euro)

Financial assets / liabilities at fair value	30.06.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	15,241	36,374	884	17,994	32,546	1,057
2. Financial assets designated at fair value through profit or loss	56,341	946	661	51,847	1,200	616
3. Financial assets available for sale	142,299	7,259	2,907	120,864	8,152	2,318
4. Hedging derivatives	-	8,019	29	-	7,039	20
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**213,881**	**52,598**	**4,481**	**190,705**	**48,937**	**4,011**
1. Financial liabilities held for trading	13,654	35,426	260	11,217	31,972	333
2. Financial liabilities designated at fair value through profit or loss	-	51,360	-	-	47,022	-
3. Hedging derivatives	-	11,315	2	-	8,228	6
Total	**13,654**	**98,101**	**262**	**11,217**	**87,222**	**339**

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

As shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio, accounting for 1.7% for financial assets and 0.2% for financial liabilities.
Approximately 79% of financial assets measured at fair value 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, note that the following transfers were made during the first half of 2016:

– from level 1 to level 2:
  financial assets held for trading for 143 million euro (book value as at 30 June 2016);
  financial assets designated at fair value through profit and loss for 6 million euro (book value as at 30 June 2016);
  financial assets available for sale for 91 million euro (book value as at 30 June 2016);
  financial liabilities held for trading for 17 million euro (book value as at 30 June 2016).
– from level 2 to level 1:
  financial assets held for trading for 343 million euro (book value as at 30 June 2016);
  financial assets designated at fair value through profit and loss for 63 million euro (book value as at 30 June 2016);
  financial assets available for sale for 355 million euro (book value as at 30 June 2016);
  financial liabilities held for trading for 1,027 million euro (book value as at 30 June 2016).

Transfers between fair value levels derive from the evolution of the observability of prices or market data used to measure the instruments and the significance of the unobservable inputs.
The transition from level 1 to level 2 occurs where an active market for that instrument no longer exists, a situation verified by analysing the reliability and reciprocal consistence of the prices available according to the Group Fair Value Policy. Conversely, securities that are subject to mark-to-model measurement using observable inputs on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

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

(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	**1,057**	**616**	**2,318**	**20**	**-**	**-**
2. Increases	**208**	**78**	**954**	**9**	**-**	**-**
2.1 Purchases	141	33	818	-	-	-
2.2 Gains recognised in:	31	9	77	9	-	-
2.2.1 Income statement	*31*	*9*	*22*	*9*	-	-
- of which capital gains	*30*	*9*	*13*	*9*	-	-
2.2.2 Shareholders' equity	*X*	*X*	*55*	-	-	-
2.3 Transfers from other levels	30	36	12	-	-	-
2.4 Other increases	6	-	47	-	-	-
3. Decreases	**-381**	**-33**	**-365**	**-**	**-**	**-**
3.1 Sales	-115	-1	-102	-	-	-
3.2 Reimbursements	-51	-21	-49	-	-	-
3.3 Losses recognized in:	-134	-4	-138	-	-	-
3.3.1 Income statement	*-134*	*-4*	*-30*	-	-	-
- of which capital losses	*-115*	*-4*	*-30*	-	-	-
3.3.2 Shareholders' equity	*X*	*X*	*-108*	-	-	-
3.4 Transfers to other levels	-75	-	-10	-	-	-
3.5 Other decreases	-6	-7	-66	-	-	-
4. Final amount	**884**	**661**	**2,907**	**29**	**-**	**-**

"Transfers from other levels" of "Financial assets held for trading" are mainly due to derivative contracts with a positive fair value.

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

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Hedging derivatives
1. Initial amount	**333**	**-**	**6**
2. Increases	**9**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	3	-	-
2.2.1 Income statement	*3*	-	-
- of which capital losses	*3*	-	-
2.2.2 Shareholders' equity	*X*	*X*	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	6	-	-
3. Decreases	**-82**	**-**	**-4**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-75	-	-4
3.3.1 Income statement	*-75*	-	*-4*
- of which capital gains	*-74*	-	*-4*
3.3.2 Shareholders' equity	*X*	*X*	-
3.4 Transfers to other levels	-7	-	-
3.5 Other decreases	-	-	-
4. Final amount	**260**	**-**	**2**

"Financial liabilities held for trading" refer to derivative contracts with a negative fair value.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2016		31.12.2015	
	Book value	Fair value	Book value	Fair value
1. Investments held to maturity	1,246	1,318	1,386	1,453
2. Due from banks	36,879	36,800	34,445	34,374
3. Loans to customers	360,240	372,724	347,333	357,749
4. Investment property	93	120	357	383
5. Non-current assets held for sale and discontinued operations	966	971	3,431	3,434
Total	**399,424**	**411,933**	**386,952**	**397,393**
1. Due to banks	67,656	67,554	59,327	59,140
2. Due to customers	271,722	272,467	255,275	255,829
3. Securities issued	107,921	108,428	110,144	112,128
4. Liabilities associated with non-current assets	336	357	116	116
Totale	**447,635**	**448,806**	**424,862**	**427,213**

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

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
Held for trading and available for sale securities	Credit spread	-107	1 bp
Held for trading and available for sale securities	Correlation	6	1%
Held for trading and available for sale securities	CPR	-115	-1%
Held for trading and available for sale securities	Recovery rate	-148	-1%
OTC Derivatives - Equity	Historical volatility for the underlying Euro Class S.p.a.	-282	10%
OTC Derivatives - Interest rate	Correlation for spread options between swap rates	-1,414	0.10
OTC Derivatives - Equity	Correlation between underlying equity baskets	-211	0.10
Derivati OTC - Interest rate	Swaption volatility in JPY	-222	10%

The sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value, referring to complex credit derivatives, of 170,786 euro [3] when the following parameters change:

– risk-neutral probability of default derived from market spreads (10%);
– recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
– correlation between the value of collateral present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
– expected residual life of the contract (one-year increase over the expected term).

Information on "Day one profit/loss"

Under IAS 39, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument on 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).

[3] This amount is shown net of the adjustments to valuations relating to the main input parameters which were already considered to determine the fair value of financial instruments (see previous paragraph "Fair value measurement").

This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.
When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's investing activities, the Day-One-Profits earned on level 3 transactions (including in the above "on the book" management) are taken to the income statement when the Group entity (the investment bank) carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.
The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.
The following table shows the DOP amount trend deferred in the balance sheet, indicating the portion taken to the income statement.

(millions of euro)

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

STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,521 million euro as at 30 June 2016 with respect to funded and unfunded ABS/CDOs, compared to 2,429 million euro as at 31 December 2015, in addition to an exposure of 4 million euro with respect to structured packages, which compares with the 2 million euro as at 31 December 2015.
The strategy regarding the portfolio in question in 2016 focused on slightly increasing the trading book to exploit market opportunities, on the one hand, and on disposing of the portfolio hard hit by the financial crisis, which is now managed by Capital Light Bank, on the other.
The rise in exposure in funded and unfunded ABS/CDOs designated at fair value (from 1,988 million euro in December 2015 to 2,099 million euro in June 2016) is attributable to higher investments in ABS by the subsidiary Banca IMI, part of which was classified to the available-for-sale portfolio, as well as to European ABS/CDOs acquired by the Parent Company and classified in the trading portfolio.
Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings. The Parent Company confirmed its transactions in European RMBS with mainly Aaa ratings, aimed at seizing market opportunities, with sales that are only partially offset by new investments.
With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, a slight decrease was recorded (from 441 million euro in December 2015 to 422 million euro in June 2016), attributable to the sales that concerned the portfolio of the Parent Company and Banca IMI, only partially offset by higher investments.
The decrease in the exposure of structured packages is attributable to expiries during the period.
From an income statement perspective, a result of -2 million euro was recorded in the first half of 2016, compared to -1 million euro for 2015.
As at 30 June 2016 the "Profits (losses) on trading – caption 80" of the exposure to funded and unfunded ABS/CDO came to -1 million euro (-1 million euro in 2015), generated by the positions in Multisector CDOs, while positions in funded European and US ABS/CDOs and in US subprime had a nil result.
The exposure to funded and unfunded ABS/CDOs in securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net increase in fair value of less than 1 million euro, accounted for in the specific Shareholders' Equity Reserve, and an impact on the income statement for sales made in the period of +3 million euro. The securities reclassified in the Loan portfolio recorded an impact of -7 million euro as at 30 June 2016, to be attributed to the Parent Company, which posted negative adjustments due to the impairment of several securities in the portfolio (-1 million euro in 2015).
The "Monoline risk" and "Non-monoline packages" made a contribution to "Profits (Losses) on trading – caption 80" of +3 million euro as at 30 June 2016, compared with the nil contribution as at 31 December 2015.

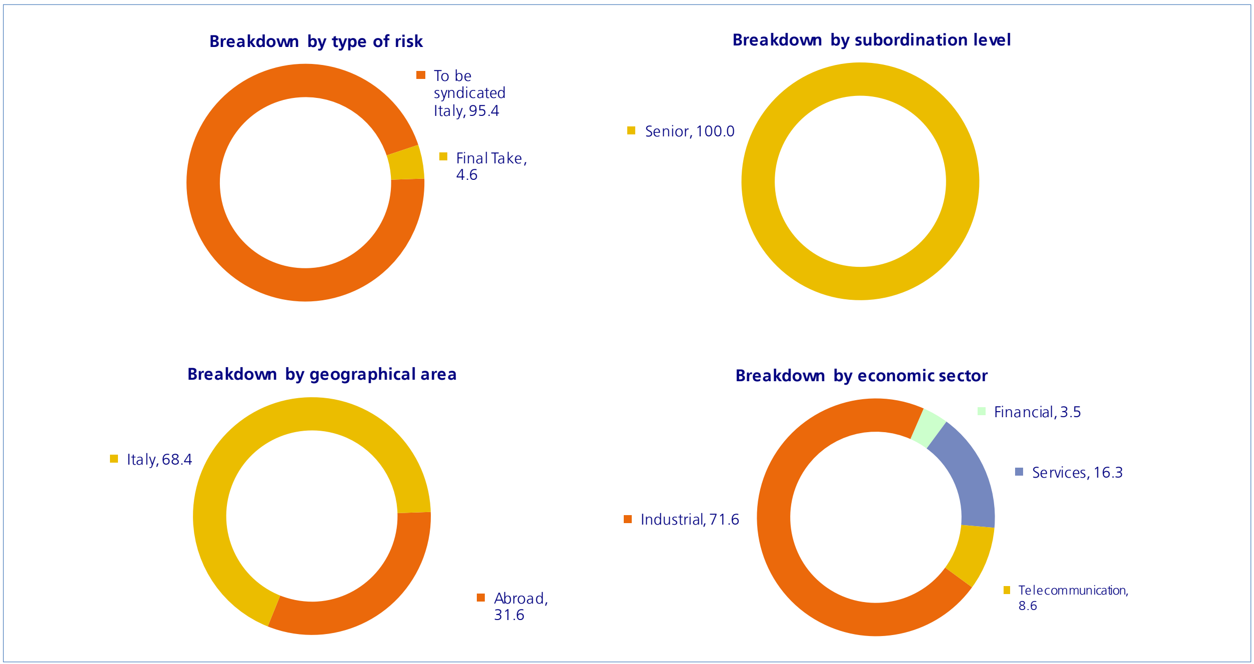
INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (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).
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 2015 financial statements.

In the first half of 2016 the Parent Company Intesa Sanpaolo issued some new Covered Bonds (CB) mainly backed by residential mortgages sold by Intesa Sanpaolo to the vehicle ISP CB Ipotecario. The issue is at a fixed rate of 0.625% and is addressed to professional investors and financial intermediaries. The bond is listed on the Luxembourg Stock Exchange, as well as traded over-the-counter, as is customary.
There were no significant changes to the other categories of SPEs for funding or self-securitisations subject to disclosure. Accordingly, reference should be made to the 2015 financial statements.

LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities, in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 30 June 2016, 111 transactions for a total amount granted of 3,280 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio, held for trading, totalled 502 million euro as at 30 June 2016 compared to 758 million euro recorded in December 2015. The reduction in the portfolio is mainly due to the decrease in the value of the units underwritten during the first quarter, and to the significant distributions and redemptions in the second quarter, for the purpose of reducing risk levels.
As at the same date, the economic result of the investments in this segment was negative for 44 million euro (with a positive contribution of 4 million euro in the second quarter and a negative contribution of 48 million euro in the first quarter), compared to a positive 51 million euro which, vice versa, concerned "Profits (losses) on trading – caption 80" in the first half of 2015. The net losses of 44 million euro recognised as at 30 June 2016 are almost entirely attributable to a deterioration in the listed NAV of some funds recognised in the first quarter. More specifically, the greatest losses were recorded on the Paulson fund (16 million), which is heavily exposed to the healthcare sector, which was affected by idiosyncratic events and is at the centre of the US electoral campaign on the price of drugs, and on the Eurizon Penghua fund (5 million), focusing on the Asian equity market, and the Chinese one in particular; several losses also concerned the funds focused on Financials, where the indexes shrunk considerably.
There were no changes in the portfolio's overall strategy, which still remains prevalently geared towards benefiting from the implementation of specific corporate events, typically independent from the general market trend, and reducing risks through a generalised downsizing of the allocations to the individual funds as a result of market uncertainty. During the second quarter of 2016, the main reductions concerned the funds Psam Master (MAP5), by 39 million euro, Paulson (MAP15) by 21 million euro,

Halcyon (MAP21) by 17 million USD and Avenue by 16 million euro. At the end of the half year, further returns were under way of approximately 90 million euro, which had not yet been carried out as at 30 June 2016.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 June 2016, 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 8,980 million euro (7,670 million euro as at 31 December 2015). The notional value of these derivatives totalled 49,805 million euro (45,855 million euro as at 31 December 2015). Of these, the notional value of plain vanilla contracts was 46,306 million euro (42,521 million euro as at 31 December 2015), while that of structured contracts was 3,499 million euro (3,334 million euro as at 31 December 2015).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 6,097 million euro (5,161 million euro as at 31 December 2015), of which 567 million euro (493 million euro as at 31 December 2015) 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 2,004 million euro as at 30 June 2016 (1,929 million euro as at 31 December 2015). The notional value of these derivatives totalled 19,782 million euro (20,304 million euro as at 31 December 2015). Of these, the notional value of plain vanilla contracts was 17,378 million euro (17,999 million euro as at 31 December 2015), while that of structured contracts was 2,404 million euro (2,305 million euro as at 31 December 2015).
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 2016, this led to a negative effect of 25 million euro being recorded under “Profits (Losses) on trading” in the income statement.
As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in this chapter.
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 defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

With regard to operational risk, on 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the leading banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium, by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

The control of the Group's operational risk was attributed to the Board of Directors, which identifies risk management policies, and to the Management Control Committee, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Enterprise Risk Management Department for management of the Group’s operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (structured collection of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Self-diagnosis process, conducted on an annual basis, allows the Group to:
- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk;
- create significant synergies with the Information Security and Business Continuity Sub-department, which supervises the planning of operational processes and business continuity issues, with Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-diagnosis process identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks.

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (scenario analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company’s business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various organisational units.

Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.
In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group subscribed an insurance coverage policy named Operational Risk Insurance Programme, which offers

additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,689 million euro as at 30 June 2016, up by 37 million euro compared to 31 December 2015 (1,652 million).

In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the Allowances for risks and charges in the event of litigations for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

As at 30 June 2016, a total of about 17,000 disputes were pending (excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 7.7 billion and provisions of almost 800 million euro. Of these disputes, approximately 1.6 billion euro regarded claims concerning loan positions, 2 billion euro regarded civil and administrative disputes, 0.9 billion euro regarded anatocism, 0.6 billion regarded bankruptcy revocatory actions and 0.6 billion euro regarded insolvency compensation.

During the first six months of 2016 no new significant legal procedures were initiated. The changes regarding the disputes referred to in the Notes to the 2015 financial statements are stated below. Reference should be made to said Notes for a more detailed description thereof.

Angelo Rizzoli Lawsuit - In April 2016 the Court of Appeal confirmed the first instance judgment in favour of Intesa Sanpaolo. Considering the favourable outcome of the first two instances of the proceedings, no provisions were allocated.

Mazzucco Group Lawsuit - The Court of Appeal postponed the deadlines for the proceedings to May 2017 for the decision on the case.

Fondazione Monte Paschi di Siena Lawsuit - As a result of the order of 23 February 2016 through which the Court of Siena accepted the claim of lack of jurisdiction raised by the Ministry for the Economy and Finance and ordered the lawsuit to be transferred to the Court of Florence, the Foundation reinstated the lawsuit. The first hearing is scheduled for 7 December 2016.

Acotel Group / Noverca Lawsuit - With measure dated 31 March 2016 the judge rejected the preliminary motions of the parties and set the hearing for the presentation of conclusions and discussion for 21 September 2016.
Specifically considering the non-admission of the court-appointed expert's report requested by the counterparty and the judge's decision to issue the ruling on conclusion of the discussion, the assessment of the case as risk-free currently stands.

I Viaggi del Ventaglio Group Lawsuits - The first instance proceedings of the lawsuit initiated in December 2011 by the bankruptcy trustee of Ventaglio International and by two of its subsidiaries, against Intesa Sanpaolo and another bank, was settled by way of judgment filed in February 2016, which rejected all the claims made on their merits, declaring them groundless both in fact and under law.
In May 2016 a new out-of-court formal notice was received, through which the bankruptcy trustee of I Viaggi del Ventaglio Resorts Ventaglio Real Estate S.r.l. claimed damages of 12 million euro. The notice concerns the same facts already attributed to the Bank in the lawsuit initiated by the bankruptcy trustee of Ventaglio International and, also on the basis of the outcome of said lawsuit, it is deemed that the claim lacks grounds.

Elifani Group Lawsuits - The judgment of the Court of Appeal of November 2015, upholding the judgment of the first instance favourable to Intesa Sanpaolo, was appealed before the Court of Cassation.

Alberto Tambelli Lawsuit - Unexpectedly, on 7 July 2016 the judgment of the Court of Appeal was published which, while rejecting most of the claims for damages formulated by Mr Tambelli, deemed that the damage concerning lost earnings resulting from the fact that Mr Tambelli was unable to make other investments should be compensated, due to the unavailability since 1994 of the amount which was the subject matter of the first instance sentencing of 2004. Though affirming that Mr Tambelli did not prove said damages, the Court ruled to accept the existence thereof and determine the damages based on the Court's mere assessment. The Court (which did not order any court-appointed expert's report) autonomously calculated the damages based on the profitability data of the equity and bond market recorded in the decade from the time the damages arose and the time the amounts settled by the first instance judge were collected (1994-2004). The Court thus calculated hypothetical income of approximately 20 million euro and deemed it "fair and reasonable to sentence the Bank to return to Mr Tambelli, as an increase in equity that could have been earned by using the amount made unavailable (lost earning), the total, comprehensive amount of 13,000,000.00 euro (including interest and revaluation), equal to around two-thirds of the total of the investments illustrated above".
The judgment is flawed in various aspects, which will be pointed out in the appeal to the Court of Cassation and the application to suspend the enforceability of the decision. Furthermore, the quantification of the damages made by the Court also has significant defects, both in the criteria used and in the mathematical calculation made.

Alis Holding Lawsuit
Assessments are under way concerning the possibility of an amicable settlement, also considering the high value of the demand for compensation and the risks that, though in a scenario favourable to the Bank, are inevitably related to the continuation of such complex lawsuits. The Judge, having been informed by the parties that negotiations are under way, postponed the lawsuit to 27 September 2016 to rule on the preliminary motions, whose outcome is generally additionally uncertain.

Administrative proceedings involving the New York Branch
During the half year, the discussions with the FED and the New York State Department for Financial Services - the financial services supervisory body of the State of New York – regarding the proceedings, launched in 2007, concerning the status of anti-money laundering controls at the New York Branch and the methods used for clearing payments in US dollars continued. The proceedings are under way and it is not possible to predict their outcome.

Potrošac Dispute
The conversion into Euro required by the law issued in September 2015 was completed in the initial months of 2016. The resulting costs, equal to approximately 171 million euro, were covered using the provisions allocated to the financial statements.
Said law decreased customers' interest in individual disputes, which dropped from 365 to 292 due to waiver of the lawsuits.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to allowances for risks and charges.

The Parent Company has 319 pending litigation proceedings (303 as at 31 December 2015) for a total amount of 338 million euro (847 million euro as at 31 December 2015), calculated considering proceedings in both administrative and judicial venues at various instances. As regards those situations, actual risk was quantified at 91 million euro (229 million euro at the end of 2015, of which 135 million euro relating to litigation being settled).

At the Group's other Italian companies included in the scope of consolidation (with the exclusion of Risanamento S.p.A., not subject to management and coordination by Intesa Sanpaolo), tax litigation totalled 203 million euro as at 30 June 2016 (217 million euro at the end of 2015), covered by specific provisions of 35 million euro (27 million euro at the end of 2015).

Tax disputes involving international subsidiaries, totalling 540 million euro (537 million euro at the end of 2015), are covered by allowances of 10 million euro (figure unchanged on 2015) and are almost exclusively comprised of the charge of illegal use of an offshore tax structure brought by the Italian tax authorities against the Luxembourg subsidiary Eurizon Capital S.A. (530 million euro, including interest accrued).

For Intesa Sanpaolo, the following situations are worth noting in the first half of 2016.

On 22 March, by implementing the resolution of the Management Board of 23 February, Intesa Sanpaolo finalised a framework agreement with the Italian Revenue Agency to settle three important disputes deriving from two reports on findings by the Guardia di Finanza, served in September 2013 and February 2015, previously illustrated in detail in the 2015 Annual Report. Based on the agreement, the above-mentioned disputes, which present a total tax risk (only for taxes and penalties) that varies from a minimum of 530 million euro to a maximum of 866 million euro and represented approximately 60% of Intesa Sanpaolo's litigation, were settled through the payment of a total of 125 million euro, by way of principal and interest (equal to 23.6% of the minimum risk and 14.4% of the maximum risk, respectively).

During the first quarter, the implementation of the framework agreements reached with the Italian Revenue Agency in 2015 for complete settlement of the charges concerning the 2005 tax period was also completed. The agreement resulted in a reduction of the revenue authority's claim from the original 376 million euro (including tax, penalties and interest) to approximately 6 million euro (so-called "Castello Finance dispute"). On 5 February 2016, the settlement led to a reimbursement of 107 million euro, previously disbursed on a preliminary basis by the Bank and no longer due.

With respect to the dispute concerning the recovery of registration tax on contribution of company assets and the subsequent sale of equity investments, characterised by the tax authorities as transfer of a business unit, some decisions were made by courts in the first and second instances during the half year, almost all favourable for the Group.
Furthermore, an additional assessment notice was served to the Bank due to higher value of the business units contributed, for a total of 2.1 million euro (plus interest), which was challenged before the competent Tax Commission.

On 29 March 2016, following the report on findings dated 27 July 2015, the Italian Revenue Agency, Emilia Romagna Regional Office, served the Bank with an assessment notice for the 2011 tax period of the merged company Neos Finance. The claim, concerning IRES and penalties of about 1.8 million euro, in addition to interest, concerns the determination criteria of the threshold under which the impairment of loans could be immediately deducted. Negotiations are under way with the Italian Revenue Agency in order to resolve the dispute through a tax settlement proposal.

The judgment of the Regional Tax Commission of Lombardy, filed on 9 June 2016, concluded the dispute concerning the refund of excess withholding paid on interest, premiums and other income on certificates of deposits and registered deposits of customers (for an amount of about 129 million euro, plus interest), stated in the annual income tax returns for 1998. The judgment merely declared the appeal that gave rise to the proceedings as inadmissible, disavowing the existence of a measure refusing the refund that can be autonomously challenged, without, however, ruling on the merits of the dispute. The Bank will not challenge the decision of the Regional Tax Commission due to lack of interest, as it has received indirect confirmation of the enforceability of the claim pending the statute of limitations.

As regards the tax audits under way at Intesa Sanpaolo, worthy of note are those being conducted by the local tax authorities on the international branches of London and Frankfurt, currently with no findings.

Turning to the other Group companies, discussions were held with the Italian Revenue Agency, Emilia Romagna Regional Office, to settle the claims concerning the tax treatment by Group banks based in the region (Cariromagna, Carisbo and the merged Banca Monte Parma) of the losses related to the transfer of loans to customers out of the performing category, subject to lump-sum write-downs, to positions subject to individual impairment testing, as a consequence of their involvement in insolvency procedures. As conditions favourable to settlement did not occur, Carisbo and Cariromagna have challenged the notices of assessment served for 2010 before the competent Tax Commission (value of the disputes of 20 million euro and 15 million euro, respectively, for IRES, interest and penalties). For Cariromagna, the dispute challenging the notice of assessment for 2011 is also pending before the Tax Commission (value of the dispute of 3 million euro for IRES, interest and penalties). However, the notice of assessment for 2012 still has to be served for Cariromagna and the notices for 2011 and 2012 for Carisbo. In any event, attempts are under way to reach a settlement, as the Regulatory Head Office of the Italian Revenue Agency has been involved to provide an answer on the merits. The economic effect of the disputes would be limited to penalties and interest, as the findings are based on an issue of jurisdiction.

For Banco di Napoli, the report on findings served by the Italian Revenue Agency, Campania Regional Office on 21 December 2015, concerning IRES and IRAP for the 2011 tax period has been settled (actual charge of 0.25 million euro, for interest on higher taxes verified and reduced penalties).

For Mediocredito Italiano, on 29 June 2016, the Italian Revenue Agency, Lombardy Regional Office, Large Taxpayers Office served a report on findings relating to a tax audit launched on 9 April 2014 concerning direct taxes, IRAP, VAT and obligations of the tax collection agents relating to the 2011 tax period. The audit concluded without any findings against the Company.

For Intesa Sanpaolo Group Services, the general audit by the Guardia di Finanza, which began on 26 November 2015, continued, concerning IRES, IRAP, VAT, other indirect taxes and labour regulations for the 2013 tax period and following.

For Banca IMI, an inspection was conducted by the Italian Revenue Agency, which sent a questionnaire for the 2013 tax period and an inspection was launched, on 10 May 2016, by the Guardia di Finanza - Milan Tax Police squad for the years 2011 and 2012 regarding income taxes and withholdings specifically regarding arbitrage operations on securities and single stock future transactions reported by another Department of the Guardia di Finanza.

Moreover, on 22 January 2016, the Italian Revenue Agency began a general audit at Cassa di Risparmio del Veneto relating to the 2013 tax period.

On the tax dispute relating to the charge of illegal use of an offshore tax structure brought by the Italian tax authorities against the Luxembourg subsidiary Eurizon Capital S.A., no changes are recorded compared to the situation as at 31 December 2015. However, the contacts with the fiscal authorities continue aimed at the recognition of the correctness of the Company's conduct, as it always acted in compliance with Italian rules and the treaty for the avoidance of double taxation between Italy and Luxembourg.

In the criminal tax area, during the first half of 2016, no situations arose that were worthy of mention, except for two judicial notices pursuant to art. 415-bis of the Italian Code of Criminal Procedure, to a top manager of the merged company Neos Finance, charging the crime of filing untrue tax returns (pursuant to art. 4 of Italian Legislative Decree no. 74/2000) in connection with the findings for the tax periods from 2010 to 2012 relating to the threshold for immediate deductibility of impairment of loans.

INSURANCE RISKS

Life business

The typical risks of a life insurance portfolio may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are monitored by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.
Reserve risk is monitored through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

Non-life business

The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Reserve risk is monitored through the exact calculation of technical reserves.

Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.
The Resolution defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, and market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk (VaR).

Investment portfolios

The investments of the insurance companies of Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 30 June 2016, the investment portfolios of Group companies, recorded at book value, amounted to 143,062 million euro. Of these, a part amounting to 86,291 million euro relates to traditional revaluable life policies - the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined - non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 56,771 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, 87.4% of assets, i.e. approximately 75,468 million euro, were bonds, whereas assets subject to equity risk represented 1.9% of the total and amounted to 1,657 million euro. The remainder (9,253 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (10.7%).
The carrying value of derivatives came to approximately -86 million euro, entirely relating to effective management derivatives.[4]. Hedging derivatives are currently not present in the portfolio.

At the end of the first six months of 2016, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 2,009 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 67 million euro.
The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 6.29 years. The reserves relating to the revaluable contracts under Separate Management have an average modified duration of approximately 6.42 years. The related portfolios of assets have a modified duration of around 5.90 years.
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 4,434 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 4.7% of total investments and A bonds approximately 5.2%. Low investment grade securities (BBB) were approximately 87.3% of the total and the portion of speculative grade or unrated was minimal (approximately 2.7%).
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 76.9% of the total investments, while financial companies (mostly banks) contributed almost 13.2% of exposure and industrial securities made up approximately 9.8%.

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

At the end of the first half of 2016, 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 4,543 million euro, with 3,572 million euro due to government issuers and 971 million euro to corporate issuers (financial institutions and industrial companies).

Shareholder base, transactions with related parties and other information

Shareholder base

According to records in the Shareholders' Register and the most recent available information, as at 30 June 2016 shareholders with stakes exceeding 3% – threshold that, if exceeded, requires now communication to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – were as follows.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,481,372,075	9.341%
Blackrock Inc [1]	857,458,853	5.407%
Fondazione Cariplo	767,029,267	4.836%
Fondazione C.R. di Padova e Rovigo	524,111,188	3.305%

[1] Fund management

Transactions with related parties

1. Procedural features

As of 31 December 2012 the Group has applied the Group procedures regulating the conduct of transaction with Intesa Sanpaolo S.p.A. related parties and associated entities of the Group, approved by the competent bodies of the Bank in compliance with the procedures set out by regulations.
These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, as well as 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.

The Procedures apply to the entire Intesa Sanpaolo Group and govern the deals with Related Parties of Intesa Sanpaolo and Associated Entities of the 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 mentioned 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 significant intermediary monitored with own funds greater than 2% 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 in terms of transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital of 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. This approach allows closer monitoring of transactions with the main shareholders - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as for transactions with Related Parties and Associated Entities - and by keeping 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 and Associated Entities of the Group, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank’s financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full and partial exemptions from the application of the regulations is also envisaged.
With regard to decision-making, 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 legal entities (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 legal entities) but lower or equal to the most significant thresholds indicated below;
most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2 billion euro for Intesa Sanpaolo);
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, which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies. 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. Bank funding transactions carried out at market or standard conditions 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 transactions at market conditions, reporting is on an aggregate annual basis.

Lastly, each Italian subsidiary bank, as direct recipient of the Bank of Italy's supervisory regulations, in addition to having adopted the "Group procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group", has adopted an additional set of specific rules and procedures.
Transactions undertaken by Italian subsidiary banks with 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.

For the sake of completeness, note that all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company, are required to apply Article 136 of the Consolidated Law on Banking. The version of this regulation in force since 27 June 2015, following the amendment introduced by Legislative Decree no. 72 of 12 May 2015, 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.
Article 2391, paragraph 1 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, the version of Article 53 of the Consolidated Law on Banking in force since 27 June 2015, following the amendment introduced by Legislative Decree no. 72/2015, requires banks' shareholders and 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 2016 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.

	30.06.2016	
	Amount (millions of euro)	**Impact** (%)
Total financial assets	2,387	0.4
Total other assets	256	1.3
Total financial liabilities	1,322	0.3
Total other liabilities	470	0.2

Equity investments in companies subject to significant influence or joint control (carried at equity), amounting to 1,691 million euro, are to be added to the foregoing balance sheet aggregates (of which 291 million euro reclassified to discontinued operations).

	30.06.2016	
	Amount (millions of euro)	**Impact** (%)
Total interest income	33	0.5
Total interest expense	1	0.1
Total fee and commission income	7	0.2
Total fee and commission expense	25	3.1
Total operating costs	34	0.8

In the first half of the year, the net provisions for losses on non-performing loans for the existing balances with related parties were of insignificant amounts.
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, 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, including as a form of self-regulation.
The table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments totalling 828 million euro.

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Due from banks	Loans to customers	Other financial assets	Due to banks	Due to customers	Financial liabilities held for trading	Other financial liabilities	Guarantees and committments given	Guarantees and committments received
Subsidiaries not consolidated on a line-by-line basis	-	-	-	-	3	97	-	125	-	12	527	-
Companies subject to joint control and their subsidiaries	21	-	4	-	289	87	1	69	-	37	84	375
Associates and their subsidiaries	269	-	151	-	1,616	63	4	451	6	28	892	454
Board Members and General Managers, Key Managers and their related parties	-	-	-	-	11	-	-	11	-	1	1	27
Pension funds	-	-	-	-	-	3	-	502	-	392	1	-
Total	**290**	**-**	**155**	**-**	**1,919**	**250**	**5**	**1,158**	**6**	**470**	**1,505**	**856**
Shareholders (*)	-	1	20	-	2	6	-	153	-	-	84	3

(*) Shareholders and the related corporate groups that hold an equity interest greater than the minimum threshold established in the rules concerning the disclosure of significant interests in companies with listed shares (calculated on owned securities only).

For the sake of completeness, the Group's most significant associates – and the companies controlled by them – included in the category of related parties in accordance with the version of IAS 24 in effect are: Bank of Qingdao Co. Ltd., Autostrade Lombarde S.p.A., Penghua Fund Management Co. Ltd., A4 Holding S.p.A., Cassa di Risparmio di Fermo S.p.A., Autostrada Pedemontana Lombarda S.p.A., Coinv S.p.A., Equiter S.p.A., Melville S.r.l., Nuovo Trasporto Viaggiatori S.p.A., Consorzio Bancario Sir S.p.A. in liquidation and Smia S.p.A. The main companies subject to joint control (joint ventures) include Re Consult Infrastrutture S.p.A., Tangenziali Esterne di Milano S.p.A., Mir Capital Sca Sicar, Allfunds Bank SA and Tangenziale Esterna S.p.A.

Also note that the equity investments in A4 Holding S.p.A. and Re Consult Infrastrutture S.p.A. were reclassified to discontinued operations.

3. Information on transactions with related parties

Most significant transactions
During the first half of 2016 the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group procedures governing transactions with related parties of Intesa Sanpaolo S.p.A. and associated entities of the Group – in an obligation to publish a market disclosure document.

Most significant intragroup transactions
With regard to most 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, unless other related parties hold significant interests in the subsidiary – note that several securitisation transactions took place during the year, as well as transactions aimed at the issue of Covered Bonds. Note that most significant transactions are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.5 billion euro for the year for Intesa Sanpaolo) or of the other indicators defined by the Consob regulation.

Other significant transactions
The transactions entered into with related parties in the first half of 2016 fall within the scope of the Group's ordinary activities and are generally entered into at market conditions, based on valuations of mutual economic interest, in line with the internal procedures mentioned above.
Some notable less significant transactions concluded during the first half of 2016 by the Parent Company or subsidiaries with related parties are reported below.
Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level.
Relations between the Intesa Sanpaolo Group, Board Members and General Managers, their close family members and entities controlled by them refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied, or, in relation to independent professionals with which a term contract exists, applying the terms reserved to professionals of similar standing, in full compliance with relevant regulations.

With respect to transactions with Shareholders with equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (to which the provisions governing transactions with related parties were extended as a form of self-regulation, subjecting them to the same assessment and approval procedure as applied to transactions with related parties), mainly ordinary lending transactions were undertaken, settled at market conditions.

For the purpose of completeness, note the proposal submitted by Banca Fideuram to purchase on the market 20 million euro of the first bond issue expressed in Euro (totalling 700 million euro) of BlackRock Inc. in addition to the proposal submitted by Banca IMI to invest in a dedicate closed-end fund discretionally managed by BlackRock.
With regard to Fondazione Cassa di Risparmio di Padova e Rovigo, it is noted that Banca IMI purchased call options on securities held by Fondazione for 2 million euro. In relation to Fondazione Cassa di Risparmio di Bologna, the loan backed by pledge on Mediobanca shares is noted, whose amount shall not exceed 70% of the value of the shares, with a maximum duration of one year.

With regard to the Group's most significant relationships with entities under joint control and associates and their subsidiaries, during the period loans and renewals were granted to: Nuovo Trasporto Viaggiatori S.p.A., Immobiliare Novoli S.p.A., Sirti S.p.A., Prelios Sgr S.p.A. Group, Alitalia-Società Aerea Italiana S.p.A., Infracom Italia S.p.A. (Re Consult Group), Italconsult S.p.A., Euromilano S.p.A., LimaCorporate S.p.A., Termomeccanica Group, Mater-BI S.p.A. Group, Gcl Holdings L.P. Group, Autostrada Pedemontana Lombarda S.p.A., Ambienta Sgr and other minor companies, transactions whose interest rates were in line with market rates.
With regard to the extension of the loans granted to Infracom Italian S.p.A., the bodies of Intesa Sanpaolo resolved, through the special decision-making procedure described above, and having assessed the company's financial situation, to maintain the economic conditions in force, even though they are no longer in line with market conditions.

As regards the Euromilano Group (entity subject to significant influence of Intesa Sanpaolo), Intesa Sanpaolo also subscribed a financial instrument totalling 10 million euro in Merlata Mall, in which Euromilano has an indirect interest of 40%.

As regards the A4 Holding Group, a new on-going credit line was granted to Serenissima Costruzioni S.p.A. and its outstanding on-going lines were renewed, with the revision valid as at October 2015.

As regards the reorganisation of the Group's structure of equity investments, the Management Board approved the partial demerger of Intesa Sanpaolo Holding International S.A., assigning the 67.7% stake in CIB Bank Ltd to Engenia S.A. (non-financial Luxembourg subsidiary consolidated at equity due to immateriality in the Half-yearly report), in addition to the subsequent cross-border merger by incorporation of Engenia into Intesa Sanpaolo, for the purpose of concentrating in the Parent Company the 100% stake in Cib Bank, with benefits expected in terms of management and coordination capacity as well as a reduction in operating costs. At the reporting date, the transaction had not yet been realised.

Other significant information

With regard to investments carried at equity, value adjustments were recorded for 1 million on Solar Express and A4 Holding, while impairment recorded on Re Consult amounted to 58 million euro. The negative impact on the income statement deriving from Compagnia Aerea Italiana amounted to 9 million euro.

For pension funds benefiting the Group's employees in which Intesa Sanpaolo companies are co-obliged by virtue of guarantees given, payments were made during the period for the settlement of the technical imbalance of the Complementary Pension Fund for employees of Banco di Napoli - Section A, already recognised in the 2015 financial statements. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

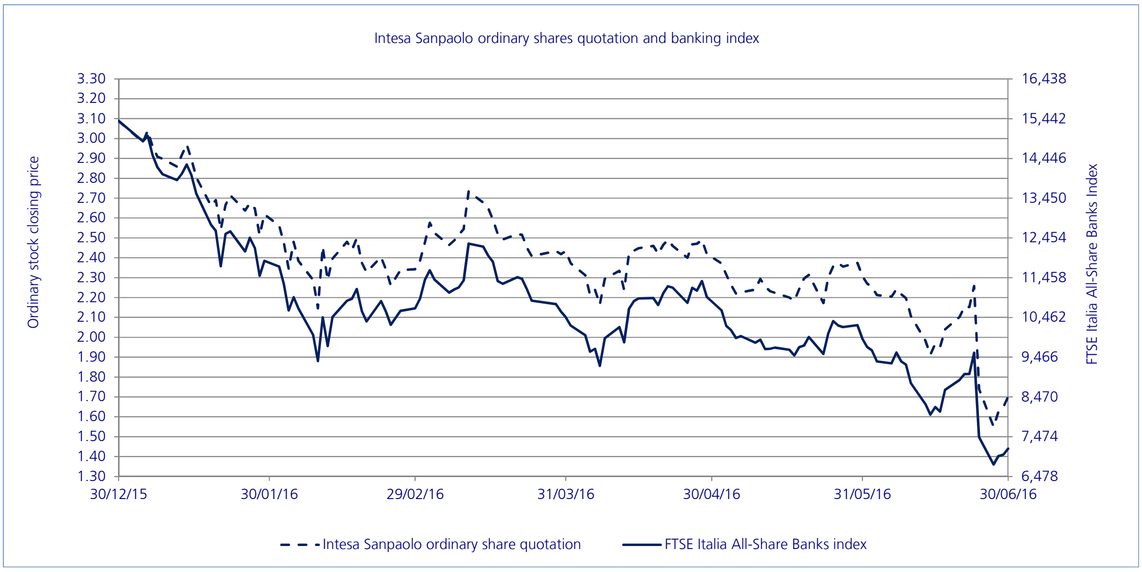
Stock price performance

In the first half of 2016, in a scenario of risk aversion of investors, increased near period-end by the unexpected outcome of the Brexit referendum, growing concerns over the quality of assets and capitalisation of the various national banking systems in the Eurozone, and despite the new expansive measures of the ECB, the European banking index recorded a loss of 34.9%, reporting a performance 22.6% lower than the Eurostoxx 50 index.

In that scenario, the Italian banking sector was harshly penalised: the Italian banking index closed the first half of 2016 with a drop of 53.4%, a performance 29% lower than the FTSE MIB index.

In the first half of 2016, the performance of Intesa Sanpaolo ordinary shares mirrored that of banking sector indices, with a drop at the start of the year, until the first ten days of February, followed by a recovery until mid-March and a subsequent downwards trend which - following a phase of fluctuation in April and May - accelerated sharply at the end of the half year and brought the shares to record a decline of 44.9% at the end of June compared to the end of 2015. The price of Intesa Sanpaolo savings shares decreased by 43.6% at the end of June 2016 compared to the end of 2015. The discount with respect to ordinary shares decreased to approximately 6% at the end of June 2016 from 8% at the end of 2015.

Intesa Sanpaolo's capitalisation dropped to 28.5 billion euro at the end of June 2016, from 51.6 billion euro at the end of 2015.



Earnings per share

Intesa Sanpaolo's share capital consists of ordinary and savings shares with different rights for the allocation of net income, which have been taken into account for the determination of the portion of net income attributable to each category of share.
Net income attributable to both ordinary and savings shares was determined considering the most recent dividends attributed to each type of share and then allocating the residual portion of net income, in the hypothetical assumption of its total distribution, in equal weight to all shares outstanding. The Earnings Per Share (EPS) indicator is presented both in the "basic" and in the "diluted" formula: basic EPS is calculated by dividing income theoretically attributable to holders of different categories of shares by the weighted average number of the shares outstanding; diluted EPS takes into account the effect of any future issues of ordinary shares.

	30.06.2016		30.06.2015	
	Ordinary shares	**Savings shares**	**Ordinary shares**	**Savings shares**
Weighted average number of shares	15,840,596,912	932,490,561	15,825,954,612	932,490,561
Income attributable to the various categories of shares *(millions of euro)*	1,602	104	1,883	121
Basic EPS (*euro*)	0.10	0.11	0.12	0.13
Diluted EPS (*euro*)	0.10	0.11	0.12	0.13
Basic EPS annualised (*) (*euro*)	0.20	0.22	0.24	0.26
Diluted EPS annualised (*) (*euro*)	0.20	0.22	0.24	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

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 2016 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

(millions of euro)

	30.06.2016	1st half 2016	2015	2014	2013	2012
Market capitalisation	28,484	39,915	51,903	38,096	24,026	20,066
Shareholders' equity	47,527	47,652	46,230	44,599	46,918	48,327
Price / book value	**0.60**	**0.84**	**1.12**	**0.85**	**0.51**	**0.42**

Rating

On 25 January 2016, Moody's upgraded ISP's long-term rating on deposits to "A3" - with stable outlook - following the Italian government's approval of the decrees implementing the BRRD. The ratings on senior debt were confirmed at "Baa1/P-2" with stable outlook.
On 31 March 2016, Fitch confirmed Intesa Sanpaolo's long- and short-term ratings at "BBB+/F2", with stable outlook. The agency also confirmed its viability rating at "bbb+". This action was taken as part of the periodic review of the ratings.

	RATING AGENCY			
	DBRS	**Fitch**	**Moody's**	**Standard & Poor's**
Short-term debt	R-1 (low) (1)	F2	P-2	A-3
Long-term senior debt	A (low)	BBB+	Baa1 (2)	BBB-
Outlook / Trend	Stable	Stable	Stable	Stable
Viability	-	bbb+	-	-

(1) Stable trend

(2) Senior debt rating. The rating on deposits is A3 with stable outlook

Forecast for the year

The forecasts for the global economy are still marked by significant sources of uncertainty. The growth of GDP and world trade are expected to stabilise at modest levels. The stabilisation of the Chinese economy and a modest recovery in oil prices should gradually ease the effect of the halt in exports of advanced countries. Stable economic growth in the United States and a marginal slowdown in the Eurozone are also expected. The GDP growth rate is also unlikely to rise in Italy in the coming quarters. The United States is expected to increase interest rates again, even though the timeframes are currently uncertain. Further monetary policy measures in the Eurozone cannot be ruled out if economic performance in the coming months proves disappointing.

In the large emerging economies of the BRIC group, for the entire first half of 2016 the manufacturing PMI remained below the critical level of 50 in both Brazil (43.2 in June) and China (48.6 in June), indicating expectations of a contraction and a slowdown of the economy, respectively. That same indicator increased to 51.5 in Russia during the same month, rising above 50 for the first time since last November, and to 51.7 in India.

In its update at the beginning of July, the International Monetary Fund confirmed its forecast of emerging market growth at 4%, unchanged compared to 2015. This forecast reflects a greater slowdown than previously expected in several countries in MENA and Sub-Saharan Africa, and in the CIS nations and Latin America as a whole. In Asia, forecasts incorporate a gradual slowdown of the Chinese economy to 6.6% (from 6.9% in 2015), continuing robust growth in India at 7.4% (down from 7.6% in 2015) and essential stability in the ASEAN area at 4.8% (as in 2015).

Turning to countries in which the Intesa Sanpaolo Group has subsidiaries, in 2016 growth in CEE countries is expected to undergo a slight correction (from 3.1% in 2015), due to the loss of the strong impetus provided by the completion of the previous investment cycle financed with structural funds from the European Union. Conversely, GDP performance is expected to improve in SEE countries (from 2.9% in 2015) due to a particularly robust growth profile in Romania, Croatia and Serbia.

In CIS countries, GDP performance is expected to decline further in Russia, although at a slower pace than in 2015, but to increase in Ukraine. Within the MENA Area, in Egypt plummeting tourist revenue and the adverse effects on domestic demand of increases in interest rates and reductions of government benefits will continue to keep the growth rate below potential in 2016.

Within the Italian banking system, there continue to be favourable conditions for a gradual recovery of lending activity, due to the very expansionary monetary policy stance, the easing of criteria implemented on the demand side and an increase in demand, within a scenario of consolidation of the economic recovery. For households, which confirmed their financial soundness, the lending scenario remains positive: growth in stocks, which resumed in 2015, will continue at a moderate pace in the rest of 2016, favoured by interest rates at historical lows, the gradual recovery of the real estate market and the improvement in conditions on the labour market. However, the recovery of loans to businesses seems more uncertain: although expectations remained oriented towards a clearer resumption of growth, this process appears destined to be slow and moderate.

In terms of funding, growth of deposits will continue, whilst the overall trend will remain affected by the households' portfolio reallocation process in favour of asset management. On the other hand, the need for customer deposits by banks should remain limited, considering the evolution of loans and the significant liquidity available, specifically through the ECB's new targeted long-term refinancing operation (TLTRO). These factors will continue to favour the reduction of customer deposit costs. In a context of very low, where not negative, market rates, and favourable credit access conditions, loan rates are expected to remain at lows.

The Intesa Sanpaolo Group expects to achieve an increase in consolidated income before tax from continuing operations and net income, compared to 2015. The Bank confirms its commitment to distribute cash dividends of 3 billion euro for 2016, as indicated in the 2014-2017 Business Plan.

The Board of Directors

Milan, 2 August 2016

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 2016.

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 2016 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[5].

3. The undersigned also certify that:

   3.1. the Half-yearly condensed consolidated financial statements as at 30 June 2016:
   – 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.

2 August 2016

Carlo Messina
Managing Director and CEO

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

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

Independent Auditors' Report

KPMG S.p.A.
Revisione e organizzazione contabile
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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 consolidated balance sheet, consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity, consolidated statement of cash flows and notes thereto, as at and for the six months ended 30 June 2016. 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.

Conclusion

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 2016 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, 4 August 2016

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director of Audit

Attachments

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2015 and adjusted consolidated balance sheet as at 31 December 2015

Reconciliation between published consolidated income statement as at 30 June 2015 and adjusted consolidated income statement as at 30 June 2015

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

Reconciliation between published consolidated balance sheet as at 31 December 2015 and restated consolidated balance sheet as at 31 December 2015

Reconciliation between adjusted consolidated income statement as at 30 June 2015 and restated consolidated income statement as at 30 June 2015

Reconciliation between the consolidated balance sheet as at 30 June 2016 and restated consolidated balance sheet as at 30 June 2016

Reconciliation between the consolidated income statement as at 30 June 2016 and restated consolidated income statement as at 30 June 2016

Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated income statement

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2015 and adjusted consolidated balance sheet as at 31 December 2015

The published consolidated balance sheet as at 31 December 2015 did not require any adjustments.

Reconciliation between published consolidated income statement as at 30 June 2015 and adjusted consolidated income statement as at 30 June 2015

(millions of euro)

	First Half 2015 Published (*)	Effects of IFRS 5 application (a)	Effects of the reclassification of bank resolution funds (b)	First Half 2015 Adjusted
10. Interest and similar income	6,956	-	-	6,956
20. Interest and similar expense	-2,564	-	-	-2,564
30. Interest margin	**4,392**	**-**	**-**	**4,392**
40. Fee and commission income	4,436	-92	-	4,344
50. Fee and commission expense	-839	16	-	-823
60. Net fee and commission income	**3,597**	**-76**	**-**	**3,521**
70. Dividend and similar income	268	-	-	268
80. Profits (Losses) on trading	366	-	-	366
90. Fair value adjustments in hedge accounting	-50	-	-	-50
100. Profits (Losses) on disposal or repurchase of	1,305	-	-	1,305
a) loans	*23*	-	-	*23*
b) financial assets available for sale	*1,403*	-	-	*1,403*
c) investments held to maturity	-	-	-	-
d) financial liabilities	*-121*	-	-	*-121*
110. Profits (Losses) on financial assets and liabilities designated at fair value	511	-	-	511
120. Net interest and other banking income	**10,389**	**-76**	**-**	**10,313**
130. Net losses / recoveries on impairment	-1,362	-	-	-1,362
a) loans	*-1,382*	-	-	*-1,382*
b) financial assets available for sale	*-32*	-	-	*-32*
c) investments held to maturity	-	-	-	-
d) other financial activities	*52*	-	-	*52*
140. Net income from banking activities	**9,027**	**-76**	**-**	**8,951**
150. Net insurance premiums	6,081	-	-	6,081
160. Other net insurance income (expense)	-7,372	-	-	-7,372
170. Net income from banking and insurance activities	**7,736**	**-76**	**-**	**7,660**
180. Administrative expenses	-4,322	38	-138	-4,422
a) personnel expenses	*-2,607*	*15*	-	*-2,592*
b) other administrative expenses	*-1,715*	*23*	*-138*	*-1,830*
190. Net provisions for risks and charges	-261	-	138	-123
200. Net adjustments to / recoveries on property and equipment	-167	1	-	-166
210. Net adjustments to / recoveries on intangible assets	-270	2	-	-268
220. Other operating expenses (income)	363	-9	-	354
230. Operating expenses	**-4,657**	**32**	**-**	**-4,625**
240. Profits (Losses) on investments in associates and companies subject to joint control	81	-	-	81
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-
260. Goodwill impairment	-	-	-	-
270. Profits (Losses) on disposal of investments	24	-	-	24
280. Income (Loss) before tax from continuing operations	**3,184**	**-44**	**-**	**3,140**
290. Taxes on income from continuing operations	-1,120	14	-	-1,106
300. Income (Loss) after tax from continuing operations	**2,064**	**-30**	**-**	**2,034**
310. Income (Loss) after tax from discontinued operations	-	30	-	30
320. Net income (loss)	**2,064**	**-**	**-**	**2,064**
330. Minority interests	-60	-	-	-60
340. Parent Company's net income (loss)	**2,004**	**-**	**-**	**2,004**

(*) Figures originally published in the Half-yearly Report as at 30 June 2015.

(a) Profit and loss results for the period ended 30 June 2015 of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016.

(b) Reclassification of contributions to resolution funds, as required by Bank of Italy Bulletin of 19 January 2016.

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

Reconciliation between published consolidated balance sheet as at 31 December 2015 and restated consolidated balance sheet as at 31 December 2015

(millions of euro)

Assets		**31.12.2015** Published (*)	**Discontinued operations** (a)	**31.12.2015** Restated
10.	Cash and cash equivalents	9,344	-	9,344
20.	Financial assets held for trading	51,597	-	51,597
30.	Financial assets designated at fair value through profit and loss	53,663	-	53,663
40.	Financial assets available for sale	131,402	-68	131,334
50.	Investments held to maturity	1,386	-	1,386
60.	Due from banks	34,445	-	34,445
70.	Loans to customers	350,010	-2,677	347,333
80.	Hedging derivatives	7,059	-	7,059
90.	Fair value change of financial assets in hedged portfolios (+/-)	110	-	110
100.	Investments in associates and companies subject to joint control	1,727	-344	1,383
110.	Technical insurance reserves reassured with third parties	22	-	22
120.	Property and equipment	5,367	-9	5,358
130.	Intangible assets	7,195	-17	7,178
	of which			
	- goodwill	*3,914*	-	*3,914*
140.	Tax assets	15,021	-14	15,007
	a) current	*3,626*	*-13*	*3,613*
	b) deferred	*11,395*	*-1*	*11,394*
	- of which convertible into tax credit (Law no. 214/2011)	*8,749*	-	*8,749*
150.	Non-current assets held for sale and discontinued operations	27	3,404	3,431
160.	Other assets	8,121	-203	7,918
Total Assets		**676,496**	**72**	**676,568**

(*) Figures originally published in the Annual Report 2015.

(a) Restatement of discontinued operations, in accordance with the reclassification in the income statement pursuant to IFRS 5. In particular, reference is made to the sale of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016. In addition, there were the sales of Re.consult and A4 Holding and the sale of the portfolio of performing salary-backed loans and consumer credit loans, finalised in May 2016 by the subsidiary ACCEDO.

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2015 Published (*)	Discontinued operations (a)	31.12.2015 Restated
10.	Due to banks	59,327	-	59,327
20.	Due to customers	255,258	17	255,275
30.	Securities issued	110,144	-	110,144
40.	Financial liabilities held for trading	43,522	-	43,522
50.	Financial liabilities designated at fair value through profit and loss	47,022	-	47,022
60.	Hedging derivatives	8,234	-	8,234
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,014	-	1,014
80.	Tax liabilities	2,367	-16	2,351
	a) current	*508*	*-12*	*496*
	b) deferred	*1,859*	*-4*	*1,855*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	116	116
100.	Other liabilities	11,566	-41	11,525
110.	Employee termination indemnities	1,353	-2	1,351
120.	Allowances for risks and charges	3,480	-2	3,478
	a) post employment benefits	*859*	*-2*	*857*
	b) other allowances	*2,621*	*-*	*2,621*
130.	Technical reserves	84,616	-	84,616
140.	Valuation reserves	-1,018	-	-1,018
150.	Redeemable shares	-	-	-
160.	Equity instruments	877	-	877
170.	Reserves	9,167	-	9,167
180.	Share premium reserve	27,349	-	27,349
190.	Share capital	8,732	-	8,732
200.	Treasury shares (-)	-70	-	-70
210.	Minority interests (+/-)	817	-	817
220.	Net income (loss)	2,739	-	2,739
Total Liabilities and Shareholders' Equity		**676,496**	**72**	**676,568**

(*) Figures originally published in the Annual Report 2015.

(a) Restatement of liabilities associated with discontinued operations, in accordance with the reclassification of the income statement pursuant to IFRS 5. In particular, reference is made to the sale of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016.

Reconciliation between adjusted consolidated income statement as at 30 June 2015 and restated consolidated income statement as at 30 June 2015

(millions of euro)

	First Half 2015 Adjusted	**Changes in the scope of consolidation** Risanamento Group consolidation (a)	**Non-current assets held for sale** (b)	**First Half 2015** Restated
10. Interest and similar income	6,956	-	-43	6,913
20. Interest and similar expense	-2,564	-11	-	-2,575
30. Interest margin	**4,392**	**-11**	**-43**	**4,338**
40. Fee and commission income	4,344	-	-	4,344
50. Fee and commission expense	-823	-2	-	-825
60. Net fee and commission income	**3,521**	**-2**	**-**	**3,519**
70. Dividend and similar income	268	-	-	268
80. Profits (Losses) on trading	366	-	-	366
90. Fair value adjustments in hedge accounting	-50	-	-	-50
100. Profits (Losses) on disposal or repurchase of	1,305	-	-	1,305
a) loans	*23*	-	-	*23*
b) financial assets available for sale	*1,403*	-	-	*1,403*
c) investments held to maturity	-	-	-	-
d) financial liabilities	*-121*	-	-	*-121*
110. Profits (Losses) on financial assets and liabilities designated at fair value	511	-	-	511
120. Net interest and other banking income	**10,313**	**-13**	**-43**	**10,257**
130. Net losses / recoveries on impairment	-1,362	-	-	-1,362
a) loans	*-1,382*	-	-	*-1,382*
b) financial assets available for sale	*-32*	-	-	*-32*
c) investments held to maturity	-	-	-	-
d) other financial activities	*52*	-	-	*52*
140. Net income from banking activities	**8,951**	**-13**	**-43**	**8,895**
150. Net insurance premiums	6,081	-	-	6,081
160. Other net insurance income (expense)	-7,372	-	-	-7,372
170. Net income from banking and insurance activities	**7,660**	**-13**	**-43**	**7,604**
180. Administrative expenses	-4,422	-8	-	-4,430
a) personnel expenses	*-2,592*	*-3*	-	*-2,595*
b) other administrative expenses	*-1,830*	*-5*	-	*-1,835*
190. Net provisions for risks and charges	-123	-	-	-123
200. Net adjustments to / recoveries on property and equipment	-166	-3	-	-169
210. Net adjustments to / recoveries on intangible assets	-268	-	-	-268
220. Other operating expenses (income)	354	7	-	361
230. Operating expenses	**-4,625**	**-4**	**-**	**-4,629**
240. Profits (Losses) on investments in associates and companies subject to joint control	81	11	-	92
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-
260. Goodwill impairment	-	-	-	-
270. Profits (Losses) on disposal of investments	24	-	-	24
280. Income (Loss) before tax from continuing operations	**3,140**	**-6**	**-43**	**3,091**
290. Taxes on income from continuing operations	-1,106	-1	14	-1,093
300. Income (Loss) after tax from continuing operations	**2,034**	**-7**	**-29**	**1,998**
310. Income (Loss) after tax from discontinued operations	30	-1	-	29
320. Net income (loss)	**2,064**	**-8**	**-29**	**2,027**
330. Minority interests	-60	8	29	-23
340. Parent Company's net income (loss)	**2,004**	**-**	**-**	**2,004**

[a] Profit and loss results for the period ended 30 June 2015 of the line-by-line consolidation of Gruppo Risanamento instead of the previously applied equity method.

[b] Profit and loss results for the period ended 30 June 2015 of the portfolio of performing loans subject to the sale finalised in May 2016 by the subsidiary ACCEDO.

Reconciliation between the consolidated balance sheet as at 30 June 2016 and restated consolidated balance sheet as at 30 June 2016

(millions of euro)

Assets		30.06.2016	Non-current assets held for sale (a)	30.06.2016 Restated
10.	Cash and cash equivalents	7,824	-	7,824
20.	Financial assets held for trading	52,499	-	52,499
30.	Financial assets designated at fair value through profit and loss	57,948	-	57,948
40.	Financial assets available for sale	152,465	-	152,465
50.	Investments held to maturity	1,246	-	1,246
60.	Due from banks	36,879	-	36,879
70.	Loans to customers	361,251	-1,011	360,240
80.	Hedging derivatives	8,048	-	8,048
90.	Fair value change of financial assets in hedged portfolios (+/-)	961	-	961
100.	Investments in associates and companies subject to joint control	1,400	-	1,400
110.	Technical insurance reserves reassured with third parties	20	-	20
120.	Property and equipment	5,003	-	5,003
130.	Intangible assets	7,113	-	7,113
	of which			
	- goodwill	*3,914*	-	*3,914*
140.	Tax assets	14,398	-	14,398
	a) current	*2,901*	-	*2,901*
	b) deferred	*11,497*	-	*11,497*
	- of which convertible into tax credit (Law no. 214/2011)	*8,626*	-	*8,626*
150.	Non-current assets held for sale and discontinued operations	966	-	966
160.	Other assets	9,271	1,011	10,282
Total Assets		**717,292**	**-**	**717,292**

[a] Results of the bridge loan prior to the closing of the sale of the portfolio of performing loans finalised at the end of May 2016 by the subsidiary ACCEDO.

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2016	Non-current assets held for sale (a)	30.06.2016 Restated
10.	Due to banks	67,656	-	67,656
20.	Due to customers	271,722	-	271,722
30.	Securities issued	107,921	-	107,921
40.	Financial liabilities held for trading	49,340	-	49,340
50.	Financial liabilities designated at fair value through profit and loss	51,360	-	51,360
60.	Hedging derivatives	11,317	-	11,317
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,005	-	1,005
80.	Tax liabilities	2,186	-	2,186
	a) current	*342*	-	*342*
	b) deferred	*1,844*	-	*1,844*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	336	-	336
100.	Other liabilities	14,476	-	14,476
110.	Employee termination indemnities	1,456	-	1,456
120.	Allowances for risks and charges	3,531	-	3,531
	a) post employment benefits	*1,241*	-	*1,241*
	b) other allowances	*2,290*	-	*2,290*
130.	Technical reserves	86,813	-	86,813
140.	Valuation reserves	-1,860	-	-1,860
150.	Redeemable shares	-	-	-
160.	Equity instruments	2,118	-	2,118
170.	Reserves	9,540	-	9,540
180.	Share premium reserve	27,349	-	27,349
190.	Share capital	8,732	-	8,732
200.	Treasury shares (-)	-59	-	-59
210.	Minority interests (+/-)	646	-	646
220.	Net income (loss)	1,707	-	1,707
Total Liabilities and Shareholders' Equity		**717,292**	**-**	**717,292**

[a] The liabilities and shareholders' equity captions did not require any restatement

Reconciliation between the consolidated income statement as at 30 June 2016 and restated consolidated income statement as at 30 June 2016

(millions of euro)

	First Half 2016	Non-current assets held for sale (a)	First Half 2016 Restated
10. Interest and similar income	6,542	-18	6,524
20. Interest and similar expense	-2,187	-	-2,187
30. Interest margin	**4,355**	**-18**	**4,337**
40. Fee and commission income	4,059	-	4,059
50. Fee and commission expense	-817	-	-817
60. Net fee and commission income	**3,242**	**-**	**3,242**
70. Dividend and similar income	326	-	326
80. Profits (Losses) on trading	251	-	251
90. Fair value adjustments in hedge accounting	-64	-	-64
100. Profits (Losses) on disposal or repurchase of	711	-	711
a) loans	*-1*	-	*-1*
b) financial assets available for sale	*701*	-	701
c) investments held to maturity	-	-	-
d) financial liabilities	*11*	-	11
110. Profits (Losses) on financial assets and liabilities designated at fair value	435	-	435
120. Net interest and other banking income	**9,256**	**-18**	**9,238**
130. Net losses / recoveries on impairment	-1,359	-	-1,359
a) loans	*-1,317*	-	-1,317
b) financial assets available for sale	*-90*	-	-90
c) investments held to maturity	-	-	-
d) other financial activities	*48*	-	48
140. Net income from banking activities	**7,897**	**-18**	**7,879**
150. Net insurance premiums	5,142	-	5,142
160. Other net insurance income (expense)	-6,088	-	-6,088
170. Net income from banking and insurance activities	**6,951**	**-18**	**6,933**
180. Administrative expenses	-4,470	-	-4,470
a) personnel expenses	*-2,682*	-	-2,682
b) other administrative expenses	*-1,788*	-	-1,788
190. Net provisions for risks and charges	-113	-	-113
200. Net adjustments to / recoveries on property and equipment	-169	-	-169
210. Net adjustments to / recoveries on intangible assets	-272	-	-272
220. Other operating expenses (income)	340	-	340
230. Operating expenses	**-4,684**	**-**	**-4,684**
240. Profits (Losses) on investments in associates and companies subject to joint control	107	-	107
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-
260. Goodwill impairment	-	-	-
270. Profits (Losses) on disposal of investments	9	-	9
280. Income (Loss) before tax from continuing operations	**2,383**	**-18**	**2,365**
290. Taxes on income from continuing operations	-678	7	-671
300. Income (Loss) after tax from continuing operations	**1,705**	**-11**	**1,694**
310. Income (Loss) after tax from discontinued operations	105	-	105
320. Net income (loss)	**1,810**	**-11**	**1,799**
330. Minority interests	-103	11	-92
340. Parent Company's net income (loss)	**1,707**	**-**	**1,707**

[a] Profit and loss results for the first five months of 2016 of the portfolio of performing loans subject to the sale finalised at the end of May 2016 by the subsidiary ACCEDO.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		30.06.2016 Restated	31.12.2015 Restated	Changes amount	Changes %
10.	Cash and cash equivalents	7,824	9,344	-1,520	-16.3
20.	Financial assets held for trading	52,499	51,597	902	1.7
30.	Financial assets designated at fair value through profit and loss	57,948	53,663	4,285	8.0
40.	Financial assets available for sale	152,465	131,334	21,131	16.1
50.	Investments held to maturity	1,246	1,386	-140	-10.1
60.	Due from banks	36,879	34,445	2,434	7.1
70.	Loans to customers	360,240	347,333	12,907	3.7
80.	Hedging derivatives	8,048	7,059	989	14.0
90.	Fair value change of financial assets in hedged portfolios (+/-)	961	110	851	
100.	Investments in associates and companies subject to joint control	1,400	1,383	17	1.2
110.	Technical insurance reserves reassured with third parties	20	22	-2	-9.1
120.	Property and equipment	5,003	5,358	-355	-6.6
130.	Intangible assets	7,113	7,178	-65	-0.9
	of which				
	- goodwill	*3,914*	*3,914*	*-*	*-*
140.	Tax assets	14,398	15,007	-609	-4.1
	a) current	*2,901*	*3,613*	*-712*	*-19.7*
	b) deferred	*11,497*	*11,394*	*103*	*0.9*
	- of which convertible into tax credit (Law no. 214/2011)	*8,626*	*8,749*	*-123*	*-1.4*
150.	Non-current assets held for sale and discontinued operations	966	3,431	-2,465	-71.8
160.	Other assets	10,282	7,918	2,364	29.9
Total Assets		**717,292**	**676,568**	**40,724**	**6.0**

(millions of euro)

Liabilities and Shareholders' Equity		30.06.2016 Restated	31.12.2015 Restated	Changes amount	Changes %
10.	Due to banks	67,656	59,327	8,329	14.0
20.	Due to customers	271,722	255,275	16,447	6.4
30.	Securities issued	107,921	110,144	-2,223	-2.0
40.	Financial liabilities held for trading	49,340	43,522	5,818	13.4
50.	Financial liabilities designated at fair value through profit and loss	51,360	47,022	4,338	9.2
60.	Hedging derivatives	11,317	8,234	3,083	37.4
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,005	1,014	-9	-0.9
80.	Tax liabilities	2,186	2,351	-165	-7.0
	a) current	*342*	*496*	*-154*	*-31.0*
	b) deferred	*1,844*	*1,855*	*-11*	*-0.6*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	336	116	220	
100.	Other liabilities	14,476	11,525	2,951	25.6
110.	Employee termination indemnities	1,456	1,351	105	7.8
120.	Allowances for risks and charges	3,531	3,478	53	1.5
	a) post employment benefits	*1,241*	*857*	*384*	*44.8*
	b) other allowances	*2,290*	*2,621*	*-331*	*-12.6*
130.	Technical reserves	86,813	84,616	2,197	2.6
140.	Valuation reserves	-1,860	-1,018	842	82.7
150.	Redeemable shares	-	-	-	
160.	Equity instruments	2,118	877	1,241	
170.	Reserves	9,540	9,167	373	4.1
180.	Share premium reserve	27,349	27,349	-	-
190.	Share capital	8,732	8,732	-	-
200.	Treasury shares (-)	-59	-70	-11	-15.7
210.	Minority interests (+/-)	646	817	-171	-20.9
220.	Net income (loss)	1,707	2,739	-1,032	-37.7
Total Liabilities and Shareholders' Equity		**717,292**	**676,568**	**40,724**	**6.0**

Restated consolidated income statement

(millions of euro)

	First Half 2016 Restated	First Half 2015 Restated	Changes amount	%
10. Interest and similar income	6,524	6,913	-389	-5.6
20. Interest and similar expense	-2,187	-2,575	-388	-15.1
30. Interest margin	**4,337**	**4,338**	**-1**	**-0.0**
40. Fee and commission income	4,059	4,344	-285	-6.6
50. Fee and commission expense	-817	-825	-8	-1.0
60. Net fee and commission income	**3,242**	**3,519**	**-277**	**-7.9**
70. Dividend and similar income	326	268	58	21.6
80. Profits (Losses) on trading	251	366	-115	-31.4
90. Fair value adjustments in hedge accounting	-64	-50	14	28.0
100. Profits (Losses) on disposal or repurchase of	711	1,305	-594	-45.5
a) loans	*-1*	*23*	*-24*	
b) financial assets available for sale	*701*	*1,403*	*-702*	*-50.0*
c) investments held to maturity	-	-	-	
d) financial liabilities	*11*	*-121*	*132*	
110. Profits (Losses) on financial assets and liabilities designated at fair value	435	511	-76	-14.9
120. Net interest and other banking income	**9,238**	**10,257**	**-1,019**	**-9.9**
130. Net losses / recoveries on impairment	-1,359	-1,362	-3	-0.2
a) loans	*-1,317*	*-1,382*	*-65*	*-4.7*
b) financial assets available for sale	*-90*	*-32*	*58*	
c) investments held to maturity	-	-	-	
d) other financial activities	*48*	*52*	*-4*	*-7.7*
140. Net income from banking activities	**7,879**	**8,895**	**-1,016**	**-11.4**
150. Net insurance premiums	5,142	6,081	-939	-15.4
160. Other net insurance income (expense)	-6,088	-7,372	-1,284	-17.4
170. Net income from banking and insurance activities	**6,933**	**7,604**	**-671**	**-8.8**
180. Administrative expenses	-4,470	-4,430	40	0.9
a) personnel expenses	*-2,682*	*-2,595*	*87*	*3.4*
b) other administrative expenses	*-1,788*	*-1,835*	*-47*	*-2.6*
190. Net provisions for risks and charges	-113	-123	-10	-8.1
200. Net adjustments to / recoveries on property and equipment	-169	-169	-	-
210. Net adjustments to / recoveries on intangible assets	-272	-268	4	1.5
220. Other operating expenses (income)	340	361	-21	-5.8
230. Operating expenses	**-4,684**	**-4,629**	**55**	**1.2**
240. Profits (Losses) on investments in associates and companies subject to joint control	107	92	15	16.3
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	9	24	-15	-62.5
280. Income (Loss) before tax from continuing operations	**2,365**	**3,091**	**-726**	**-23.5**
290. Taxes on income from continuing operations	-671	-1,093	-422	-38.6
300. Income (Loss) after tax from continuing operations	**1,694**	**1,998**	**-304**	**-15.2**
310. Income (Loss) after tax from discontinued operations	105	29	76	
320. Net income (loss)	**1,799**	**2,027**	**-228**	**-11.2**
330. Minority interests	-92	-23	69	
340. Parent Company's net income (loss)	**1,707**	**2,004**	**-297**	**-14.8**

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Captions of the reclassified consolidated balance sheet - Assets	Captions of the consolidated balance sheet - Assets	30.06.2016 Restated	31.12.2015 Restated
Financial assets held for trading		52,499	51,597
	Caption 20 - Financial assets held for trading	*52,499*	*51,597*
Financial assets designated at fair value through profit and loss		57,948	53,663
	Caption 30 - Financial assets designated at fair value through profit and loss	*57,948*	*53,663*
Financial assets available for sale		152,465	131,334
	Caption 40 - Financial assets available for sale	*152,465*	*131,334*
Investments held to maturity		1,246	1,386
	Caption 50 - Investments held to maturity	*1,246*	*1,386*
Due from banks		36,879	34,445
	Caption 60 - Due from banks	*36,879*	*34,445*
Loans to customers		360,240	347,333
	Caption 70 - Loans to customers	*360,240*	*347,333*
Investments in associates and companies subject to joint control		1,400	1,383
	Caption 100 - Investments in associates and companies subject to joint control	*1,400*	*1,383*
Property, equipment and intangible assets		12,116	12,536
	Caption 120 - Property and equipment	*5,003*	*5,358*
	+ Caption 130 - Intangible assets	*7,113*	*7,178*
Tax assets		14,398	15,007
	Caption 140 - Tax assets	*14,398*	*15,007*
Non-current assets held for sale and discontinued operations		966	3,431
	Caption 150 - Non-current assets held for sale and discontinued operations	*966*	*3,431*
Other assets		27,135	24,453
	Caption 10 - Cash and cash equivalents	*7,824*	*9,344*
	+ Caption 160 - Other assets	*10,282*	*7,918*
	+ Caption 110 - Technical insurance reserves reassured with third parties	*20*	*22*
	+ Caption 80 - Hedging derivatives	*8,048*	*7,059*
	+ Caption 90 - Fair value change of financial assets in hedged portfolios	*961*	*110*
Total Assets	**Total Assets**	**717,292**	**676,568**

Captions of the reclassified consolidated balance sheet Liabilities and Shareholders' Equity	Captions of the consolidated balance sheet - Liabilities and Shareholders' Equity	30.06.2016 Restated	31.12.2015 Restated
Due to banks		67,656	59,327
	Caption 10 - Due to banks	*67,656*	*59,327*
Due to customers and securities issued		379,643	365,419
	Caption 20 - Due to customers	*271,722*	*255,275*
	+ Caption 30 - Securities issued	*107,921*	*110,144*
Financial liabilities held for trading		49,340	43,522
	Caption 40 - Financial liabilities held for trading	*49,340*	*43,522*
Financial liabilities designated at fair value through profit and loss		51,360	47,022
	Caption 50 - Financial liabilities designated at fair value through profit and loss	*51,360*	*47,022*
Tax liabilities		2,186	2,351
	Caption 80 - Tax liabilities	*2,186*	*2,351*
Liabilities associated with non-current assets held for sale and discontinued operations		336	116
	Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations	*336*	*116*
Other liabilities		26,798	20,773
	Caption 100 - Other liabilities	*14,476*	*11,525*
	+ Caption 60 - Hedging derivatives	*11,317*	*8,234*
	+ Caption 70 - Fair value change of financial liabilities in hedged portfolios	*1,005*	*1,014*
Technical reserves		86,813	84,616
	Caption 130 - Technical reserves	*86,813*	*84,616*
Allowances for specific purpose		4,987	4,829
	Caption 110 - Employee termination indemnities	*1,456*	*1,351*
	Caption 120 - Allowances for risks and charges	*3,531*	*3,478*
Share capital		8,732	8,732
	Caption 190 - Share capital	*8,732*	*8,732*
Reserves (net of treasury shares)		36,830	36,446
	Caption 170 - Reserves	*9,540*	*9,167*
	Caption 180 - Share premium reserve	*27,349*	*27,349*
	– Caption 200 - Treasury shares	*-59*	*-70*
Valuation reserves		-1,860	-1,018
	Caption 140 - Valuation reserves	*-1,860*	*-1,018*
Equity instruments		2,118	877
	Caption 160 - Equity instruments	*2,118*	*877*
Minority interests		646	817
	Caption 210 - Minority interests	*646*	*817*
Net income (loss)		1,707	2,739
	Caption 220 - Net income (loss)	*1,707*	*2,739*
Total Liabilities and Shareholders' Equity	**Total Liabilities and Shareholders' Equity**	**717,292**	**676,568**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	First Half 2016 Restated	First Half 2015 Restated
Net interest income		**3,686**	**3,904**
	Caption 30 - Interest margin	*4,337*	*4,338*
	- Caption 30 (partial) - Contribution of insurance business	*-974*	*-1,007*
	- Caption 30 (partial) - Interest margin (Effect of purchase price allocation)	*5*	*12*
	+ Caption 80 (partial) - Components of the profits (losses) on trading relating to net interest	*-1*	*277*
	+ Caption 100 a) (partial) - Components of the profits (losses) on disposal of loans relating to net interest income	*-*	*-*
	+ Caption 130 a) (partial) - Net losses/recoveries on impairment of loans (Time value loans)	*347*	*307*
	+ Caption 180 a) (partial) - Personnel expenses (Time value employee termination indemnities and other)	*-28*	*-22*
	+ Caption 190 (partial) - Net provisions for risks and charges (Time value allowances for risks and charges)	*-*	*-1*
Profits (losses) on investments in associates and companies subject to joint control (carried at equity)		**158**	**54**
	Caption 70 - Dividend and similar income	*326*	*268*
	- Caption 70 (partial) - Contribution of insurance business	*-124*	*-82*
	- Caption 70 (partial) - Dividend and similar income on shares available for sale and held for trading	*-202*	*-186*
	+ Caption 240 (partial) - Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	*158*	*54*
Net fee and commission income		**3,524**	**3,716**
	Caption 60 - Net fee and commission income	*3,242*	*3,519*
	- Caption 60 (partial) - Contribution of insurance business	*294*	*210*
	+ Caption 180 b) (partial) - Other administrative expenses (Recovery of other expenses)	*-12*	*-13*
	+ Caption 80 (partial) - Components of the profits (losses) on trading relating to net fee and commission interest	*-*	*-*
Profits (Losses) on trading		**695**	**976**
	Caption 80 - Profits (Losses) on trading	*251*	*366*
	+ Caption 90 - Fair value adjustments in hedge accounting	*-64*	*-50*
	+ Caption 100 b) - Profits (Losses) on disposal or repurchase of financial assets available for sale	*701*	*1,403*
	+ Caption 100 d) - Profits (Losses) on disposal or repurchase of financial liabilities	*11*	*-121*
	+ Caption 110 - Profits (Losses) on financial assets and liabilities designated at fair value	*435*	*511*
	+ Caption 70 (partial) - Dividend and similar income on shares available for sale and held for trading	*202*	*186*
	- Caption 80 (partial) - Components of the profits (losses) on trading relating to net interest	*1*	*-277*
	- Caption 80 (partial) - Components of the profits (losses) on trading relating to net fee and commission interest	*-*	*-*
	- Caption 80 (partial) - Contribution of insurance business	*-755*	*-1,042*
	- Caption 100 (partial) - Visa Europe Transaction	*-87*	*-*
Income from insurance business		**571**	**625**
	Caption 150 - Net insurance premiums	*5,142*	*6,081*
	+ Caption 160 - Other net insurance income (expense)	*-6,088*	*-7,372*
	+ Caption 30 (partial) - Contribution of insurance business	*974*	*1,007*
	+ Caption 60 (partial) - Contribution of insurance business	*-294*	*-210*
	+ Caption 70 (partial) - Contribution of insurance business	*124*	*82*
	+ Caption 80 (partial) - Contribution of insurance business	*755*	*1,042*
	- Caption 160 (partial) - Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS	*-42*	*-5*
Other operating income (expenses)		**-6**	**-136**
	Caption 220 - Other operating income (expenses)	*340*	*361*
	+ Caption 100 (partial) - Visa Europe Transaction	*87*	*-*
	+ Caption 180 (partial) - Other administrative expenses (Resolution fund and deposit guarantee scheme)	*-161*	*-138*
	- Caption 220 (partial) - Other operating income (expenses) (Recovery of expenses)	*-3*	*-6*
	- Caption 220 (partial) - Other operating income (expenses) (Recovery of indirect taxes)	*-354*	*-352*
	- Caption 220 (partial) - Other operating income (expenses) (Impairment losses on repurchased property and equipment)	*5*	*3*
	- Caption 220 (partial) - Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)	*-3*	*-4*
	- Caption 310 (partial) - Income (Loss) after tax from discontinued operations (Visa Europe Transaction)	*83*	*-*
Operating income		**8,628**	**9,139**
Personnel expenses		**-2,613**	**-2,558**
	Caption 180 a) - Personnel expenses	*-2,682*	*-2,595*
	- Caption 180 a) (partial) - Personnel expenses (Charges for integration and exit incentives)	*41*	*15*
	- Caption 180 a) (partial) - Personnel expenses (Time value employee termination indemnities and other)	*28*	*22*
Administrative expenses		**-1,233**	**-1,297**
	Caption 180 b) - Other administrative expenses	*-1,788*	*-1,835*
	- Caption 180 b) (partial) - Other administrative expenses (Charges for integration)	*25*	*29*
	- Caption 180 b) (partial) - Other administrative expenses (Resolution fund and deposit guarantee scheme)	*161*	*138*
	+ Caption 180 b) (partial) - Other administrative expenses (Recovery of other expenses)	*12*	*13*
	+ Caption 220 (partial) - Other operating income (expenses) (Recovery of indirect taxes)	*354*	*352*
	+ Caption 220 (partial) - Other operating income (expenses) (Recovery of expenses)	*3*	*6*
Adjustments to property, equipment and intangible assets		**-355**	**-350**
	Caption 200 - Net adjustments to/recoveries on property and equipment	*-169*	*-169*
	+ Caption 210 - Net adjustments to/recoveries on intangible assets	*-272*	*-268*
	- Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Charges for integration)	*6*	*2*
	- Caption 200 (partial) - Net adjustments to/recoveries on property and equipment (Impairment)	*-*	*4*
	- Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Impairment)	*2*	*6*
	- Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Impairment - Intangible assets)	*-*	*-*
	- Caption 200 (partial) - Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)	*-*	*-9*
	- Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	*78*	*84*
Operating costs		**-4,201**	**-4,205**
Operating margin		**4,427**	**4,934**

(millions of euro)

Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	First Half 2016 Restated	First Half 2015 Restated
Operating margin		**4,427**	**4,934**
Net provisions for risks and charges		**-113**	**-122**
	Caption 190 - Net provisions for risks and charges	*-113*	*-123*
	- Caption 190 (partial) - Net provisions for risks and charges (Time value allowances for risks and charges)	*-*	*1*
	- Caption 190 (partial) - Net provisions for risks and charges (tax charges)	*-*	*-*
Net adjustments to loans		**-1,617**	**-1,614**
	Caption 100 a) - Profits (Losses) on disposal or repurchase of loans	*-1*	*23*
	+ Caption 130 a) - Net losses/recoveries on impairment of loans	*-1,317*	*-1,382*
	- Caption 130 a) (partial) - Net losses/recoveries on impairment of loans (Time value loans)	*-347*	*-307*
	+ Caption 130 d) - Net losses/recoveries on impairment of other financial activities	*48*	*52*
	- Caption 100 a) (partial) - Components of the profits (losses) on disposal of loans relating to net interest income	*-*	*-*
	- Caption 100 a) (partial) - Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)	*-*	*-*
Net impairment losses on other assets		**-56**	**-40**
	+ Caption 130 b) - Net losses/recoveries on impairment of financial assets available for sale	*-90*	*-32*
	+ Caption 130 c) - Net losses/recoveries on impairment of investments held to maturity	*-*	*-*
	+ Caption 160 (partial) - Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS	*42*	*5*
	+ Caption 200 (partial) - Net adjustments to/recoveries on property and equipment (Impairment)	*-*	*-4*
	- Caption 200 (partial) - Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)	*-1*	*-*
	+ Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Impairment)	*-2*	*-6*
	+ Caption 220 (partial) - Other operating income (expenses) (Impairment losses on repurchased property and equipment)	*-5*	*-3*
Profits (Losses) on investments held to maturity and on other investments		**-40**	**66**
	Caption 100 c) - Profits (Losses) on disposal or repurchase of investments held to maturity	*-*	*-*
	+ Caption 220 (partial) Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)	*3*	*4*
	+ Caption 240 - Profits (Losses) on investments in associates and companies subject to joint control	*107*	*92*
	- Caption 240 (partial) - Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	*-158*	*-54*
	+ Caption 270 - Profits (Losses) on disposal of investments	*9*	*24*
	- Caption 270 (partial) - Profits (Losses) on disposal of investments (Effect of purchase price allocation)	*-1*	*-*
Income (Loss) before tax from continuing operations		**2,601**	**3,224**
Taxes on income from continuing operations		**-723**	**-1,136**
	Caption 290 - Taxes on income from continuing operations	*-671*	*-1,093*
	+ Caption 190 (partial) - Net provisions for risks and charges (tax charges)	*-*	*-*
	- Caption 290 (partial) - Taxes on income from continuing operations (Goodwill impairment)	*-*	*-*
	- Caption 290 (partial) - Taxes on income from continuing operations (Charges for integration)	*-21*	*-15*
	- Caption 290 (partial) - Taxes on income from continuing operations (Effect of purchase price allocation)	*-25*	*-28*
	+ Caption 310 (partial)- Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)	*-6*	*-*
Charges (net of tax) for integration and exit incentives		**-51**	**-31**
	+ Caption 180 a) (partial) - Personnel expenses (Charges for integration and exit incentives)	*-41*	*-15*
	+ Caption 180 b) (partial) - Other administrative expenses (Charges for integration)	*-25*	*-29*
	+ Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Charges for integration)	*-6*	*-2*
	+ Caption 290 (partial) - Taxes on income from continuing operations (Charges for integration)	*21*	*15*
Effect of purchase price allocation (net of tax)		**-56**	**-59**
	+ Caption 30 (partial) - Interest margin (Effect of purchase price allocation)	*-5*	*-12*
	+ Caption 200 (partial) - Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)	*-*	*9*
	- Caption 200 (partial) - Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)	*1*	*-*
	+ Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	*-78*	*-84*
	+ Caption 100 a) (partial) - Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)	*-*	*-*
	+ Caption 270 (partial) - Profits (Losses) on disposal of investments (Effect of purchase price allocation)	*1*	*-*
	+ Caption 290 (partial) - Taxes on income from continuing operations (Effect of purchase price allocation)	*25*	*28*
Impairment (net of tax) of goodwill and other intangible assets		**-**	**-**
	Caption 260 - Goodwill impairment	-	-
	+ Caption 210 (partial) - Net adjustments to/recoveries on intangible assets (Impairment - Intangible assets)	*-*	*-*
	+ Caption 290 (partial) - Taxes on income from continuing operations (Goodwill impairment)	*-*	*-*
Income (Loss) after tax from discontinued operations		**28**	**29**
	Caption 310 - Income (Loss) after tax from discontinued operations	*105*	*29*
	- Caption 310 (partial) - Income (Loss) after tax from discontinued operations (Visa Europe Transaction)	*-83*	*-*
	- Caption 310 (partial) - Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)	*6*	*-*
Minority interests		**-92**	**-23**
	Caption 330 - Minority interests	*-92*	*-23*
Net income (loss)	**Caption 340 - Parent Company's net income (loss)**	**1,707**	**2,004**

Glossary

GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Report" and with exclusion of the terms today widely used in the Italian language or which are used in a context that already clarifies their meaning

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 (IRB) or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD and Maturity) used for credit risk assessment, whereas for Foundation IRB they only estimate 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).

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.

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 (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).

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).

β
The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

Back office
The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

Backtesting
Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

Basis swap
Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

Best practice
It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the buying and selling price of a given financial instrument or set of financial instruments.

Bookrunner
See Lead manager and Joint lead manager.

Brand name
IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand" is used in accounting principles with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

Budget
Forecast of cost and revenue performance of a company over a period of time.

Business combinations
In accordance with international accounting standard IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

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, CAGR is calculated as follows: (Ending value/Starting value)^(1/n) -1.

Capital Asset Pricing Model (CAPM)
An economic model for determining the "opportunity cost" i.e. the amount of income for the period necessary to remunerate the cost of capital.

Capital structure
It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:
Equity Tranche (B): The riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.
Mezzanine Tranche (B): The tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.
Senior/Super-senior 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.

Cash flow hedge
Coverage against exposure to variability in cash flows associated with a particular risk.

Cash-generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash management
A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

Categories of financial instruments provided for by IAS 39
Financial assets "held-for-trading", which includes the following: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking, and assets that the entity decides in any case to measure at fair value, with fair value changes recognized in profit and loss; financial assets "held-to-maturity", non-derivative assets with fixed term and fixed or determinable payments, that an entity intends and is able to hold to maturity; "Loans and receivables", non-derivative financial assets with fixed or determinable payments not quoted in an active market; financial assets "available-for-sale", specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

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.

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 optional structure to obtain full or partial protection of the invested capital, which takes the form of full or partial returns 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 - market managed by Borsa Italiana, and on the EuroTLX market).

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

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

CMBX index
The same as the ABX index, the only difference being that the reference entities are CMBSs.

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.

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.

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

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

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

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

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

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.

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.).

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.

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.

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 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.

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.

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.

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 propensity.

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

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

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

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

Deferred tax (tax liabilities or assets)
Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.
Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:
(a) deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.
Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.
There are two types of temporary difference:
(d) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or
(e) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

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

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

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

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

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.

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.

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

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

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.

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

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 derivatives 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.

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.

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

Expected loss
Amount of losses on loans or receivables that an entity could sustain over a holding period of one year. Given a portfolio of loans and receivables, the expected loss represents the average value of the distribution of losses.

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 one 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.

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.

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.

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.

Fundamental Valuation
Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

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.

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

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

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

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

Grandfathering
The new composition of own funds according to Basel 3 and other less significant measures shall enter into force following a

transitional period. Specifically, old instruments included in Basel 2 regulatory capital which are not included as per Basel 3 shall be gradually eliminated (known 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).

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 quotas to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

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

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

HY CBO – High-Yield Collateralised Bond Obligation
CDOs with collateral represented by High-Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)
The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP (Internal Capital Adequacy Assessment Process)
The “Second Pillar” provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement (“First Pillar”), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IFRIC (International Financial Reporting Interpretations Committee)
A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

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.

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." 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."

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.

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.

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.

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

Internal dealing
Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investment property
Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

Investment grade
Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor’s index).

IRS – Interest Rate Swap
A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

Joint venture
Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.

Ke – g
Difference between the discounting rate for cash flows and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

Lambda (λ)
Coefficient that measures the assessed item's specific exposure to country risk. In the model used by Intesa Sanpaolo, it is estimated to be 1, in that it is presumed that it is necessary to vary the country's risk level.

LDA - Loss Distribution Approach
Method for quantitative assessment of the risk profile through the actuarial analysis of single events of internal and external loss; by extension, Loss Distribution Approach shall also include the historical capital calculation model by 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 borrower. 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.

Leveraged & acquisition finance
See "Acquisition finance".

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).

Loss Given Default (LGD)
It indicates the estimated loss rate in the event of borrower default.

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.

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.

Mark-down
Difference between the 1-month Euribor and interest rates on household and business current accounts.

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.

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.).

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 clients 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.

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.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

Multistrategy / Funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

NAV - Net Asset Value
The market value of one share of the fund's managed assets.

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

Operational risk
The risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is,

the risk of losses deriving from breach of laws or regulations, contractual or tortious liability or other disputes, ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

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.

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.

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.

Past due loans
"Past due loans" are non-performing loans 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.

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.

Pool (transactions)
See "Syndicated lending".

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.

Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

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.

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).

PV01
Measures the price value change of a financial asset following a one basis point shift in the yield curve.

Ratings
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.

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.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on ten-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

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.

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.

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.

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.

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.

Senior/Super senior tranche
In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

SGR (Società di gestione del risparmio)
Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

SPE/SPV
Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Speculative grade
Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor’s index).

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.

Stakeholders
Subjects who, acting in different capacities, interact with the firm’s activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

Stock options
Term used to indicate the right granted to company managers to purchase the company’s shares at a certain price (strike price).

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank’s overall exposure to risk.

Structured export finance
Structured finance transactions in the goods and services export sector.

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.

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).

Tier 1
Tier 1 equity includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 1 ratio
The ratio of Tier 1 capital, which includes 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 own funds components (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.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega
Coefficient that measures the sensitivity of an option's value in relation to a change in or underestimation of volatility.

Vega01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

Warrant
Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Waterfall
Characteristic of a CDO's cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

Wealth management
See "Asset management".

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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Financial calendar

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