



Half-yearly report as  
at 30 June 2017



*This is an English translation from the original "Relazione semestrale al 30 giugno 2017" and was prepared solely for the convenience of the reader. The Italian original "Relazione semestrale al 30 giugno 2017" was approved by the Board of Directors of Intesa Sanpaolo on 1 August 2017 and is available on [group.intesasanpaolo.com](http://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 2017

**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 8,731,984,115.92. 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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# THE INTESA SANPAOLO GROUP



# The Intesa Sanpaolo Group: presence in Italy

## Banks

### INTESA SANPAOLO



#### NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,314	Fideuram	89
	Banca Prossima	29
	Mediocredito Italiano	3
	Banca IMI	1



#### NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
619	CR del Veneto	300
	CR in Bologna	154
	CR del Friuli Venezia Giulia	91
	CR di Forlì e della Romagna	77
	Fideuram	58
	Banca Prossima	16
	Mediocredito Italiano	2

#### CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
612	Banca CR Firenze	295
	Fideuram	41
	Banca Prossima	10
	Banco di Napoli	4
	Mediocredito Italiano	2
	Banca IMI	1

#### SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
95	Banco di Napoli	552
	Fideuram	27
	Banca Prossima	20
	Mediocredito Italiano	2

#### ISLANDS

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

Figures as at 30 June 2017 include the branches of the acquired operations of Banca Popolare di Vicenza and Veneto Banca

## Product Companies



Bancassurance and Pension Funds



Asset Management



Industrial credit, Factoring and Leasing



Fiduciary Services

# The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

## INTESA SANPAOLO



### 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 <sup>(1)</sup>
Istanbul	Istanbul
London	Moscow
Madrid	
Paris	
Romania (*)	
Warsaw	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	31
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	53
Croatia	Privredna Banka Zagreb	195
Czech Republic	VUB Banka	1
Hungary	CIB Bank	82
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram	1
	Intesa Sanpaolo Bank Luxembourg	1
Romania	Intesa Sanpaolo Bank Romania	31
Russian Federation	Banca Intesa	37
Serbia	Banca Intesa Beograd	165
Slovakia	VUB Banka	232
Slovenia	Intesa Sanpaolo Bank	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex-Bank	60
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Banking	1

### AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	172
Tunis			

Figures as at 30 June 2017

(1) International and Regulatory Affairs

(\*) 21 branches from acquired operations of Veneto Banca

## Product Companies



Consumer Credit, E-money and Payment Systems



Leasing



Insurance



Asset Management



Factoring



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# 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 <sup>(a)</sup>
Directors	Gianfranco CARBONATO Franco CERUTI Francesca CORNELLI Giovanni COSTA Edoardo GAFFEO <sup>(*)</sup> Giorgina GALLO Giovanni GORNO TEMPINI Rossella LOCATELLI Marco MANGIAGALLI <sup>(**)</sup> Maria MAZZARELLA Milena Teresa MOTTA <sup>(*)</sup> Bruno PICCA Alberto Maria PISANI <sup>(*)</sup> Livia POMODORO Daniele ZAMBONI Maria Cristina ZOPPO <sup>(*)</sup>

## 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







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# Introduction

The “Half-yearly Report as at 30 June 2017” 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 2017” 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](http://www.group.intesasanpaolo.com), contains the press releases issued during the period together with other financial documents.

## DISCLAIMER

On 23 June 2017, the European Central Bank declared that Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. were failing or likely to fail. On the same day, the Single Resolution Board, the European authority for the management of the banking crisis, in addition to confirming the ECB’s assessment, decided that the launch of a resolution procedure (required by the BRRD) was not in the public interest, pursuant to European regulations; accordingly, it declared that the subsequent steps of the crisis affecting the two banks would be managed in accordance with national law.

Acknowledging these decisions, the Italian Government and the Bank of Italy decided to start the compulsory administrative liquidation proceedings envisaged by the Consolidated Law on Banking and Decree Law no. 99 of 25 June 2017.

Following the start of the compulsory administrative liquidation proceedings, as a result of a procedure open to various potential buyers, on 26 June 2017 Intesa Sanpaolo signed a contract concerning the acquisition of certain assets and liabilities and certain legal relationships (hereinafter “Aggregate Set”) of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. (as well as the international branches of the latter located in Romania), for a token price of 1 euro. The Aggregate Set includes the shareholdings of Banca Popolare di Vicenza S.p.A. in Banca Nuova S.p.A., of Veneto Banca S.p.A. in Banca Apulia S.p.A. and in the international banks operating in Moldova, Croatia and Albania, as well as the shareholdings of both banks in SEC Servizi S.c.p.a and in Servizi Bancari S.c.p.a.

The value of the assets and liabilities included in the Aggregate Set was provisionally calculated on the date of execution of the contract based on the values obtained from the last available financial reports of the two banks, referring to 31 March 2017.

For this operation, Intesa Sanpaolo received a public contribution of 3.5 billion euro to offset the impacts on the capital ratios deriving from the acquisition and of 1.285 billion euro to support the corporate restructuring measures that Intesa Sanpaolo must activate to fulfil the commitments made with the European Commission.

In consideration of the operation timing, Intesa Sanpaolo could not perform any due diligence activities on the values of the Aggregate Set and, as a consequence, Decree Law no. 99/2017 and the acquisition contract require the performance, subsequently to the conclusion of the operation and through the appointment of three experts, of a due diligence process aimed at calculating the final values, as well as drafting the analytical inventory, of the items included in the Aggregate Set and of the public contribution to offset the impact on the capital ratios.

As a result of the procedure to calculate the imbalance of the Aggregate Set, the parties will ascertain the existence of any assets, liabilities or legal relationships not pertaining to the Aggregate Set, with a consequent adjustment of the imbalance, and Intesa Sanpaolo will have the right to return assets, liabilities or legal relationships to the Banks in compulsory administrative liquidation, also in this case with consequent adjustment of the imbalance.

Following completion of the due diligence, Intesa Sanpaolo will grant to the Banks in compulsory administrative liquidation a loan (backed by the State up to a maximum amount of 6.4 billion euro) for an amount equalling the ascertained imbalance.



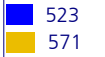




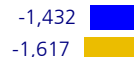


As at 30 June 2017, which is the reference date of this Half-yearly Report, this assessment activity had not been performed (and is not at the date of publishing this report) and, therefore, the values of the acquired assets and liabilities, as well as the amount of the contribution to offset the impacts on the capital ratios included in this Half-yearly Report, indicated separately in the reclassified balance sheet in the related tables, as well as in the reconciliation statements attached, are to be considered provisional.

Furthermore, with reference to the subsidiaries of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. included in the Aggregate Set, Intesa Sanpaolo has not yet received the necessary authorisations from the competent authorities and, therefore, not being able to exercise control, has not carried out their full consolidation.

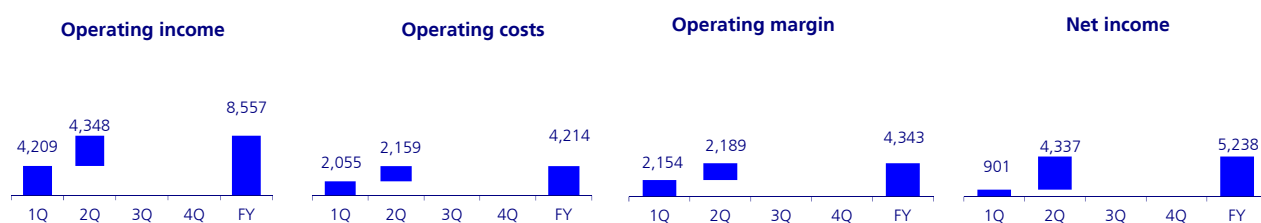


# Overview of the first half 2017

# Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)		Changes	
		amount	%
Net interest income	 3,620 3,687	-67	-1.8
Net fee and commission income	 3,751 3,545	206	5.8
Profits (Losses) on trading	 523 571	-48	-8.4
Income from insurance business	 591 695	-104	-15.0
Operating income	 8,557 8,641	-84	-1.0
Operating costs	-4,214  -4,215	-1	-
Operating margin	 4,343 4,426	-83	-1.9
Net adjustments to loans	-1,432  -1,617	-185	-11.4
Income (Loss) after tax from discontinued operations	-  48	-48	
Net income (loss)	 5,238 1,707	3,531	

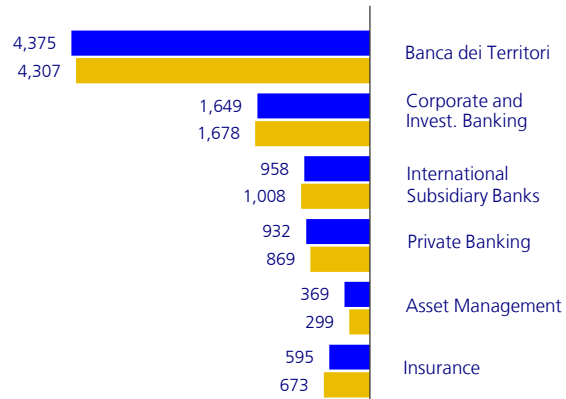
## Quarterly development of main consolidated income statement figures (millions of euro)



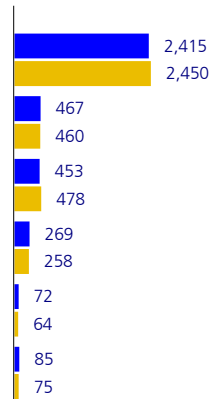
30.06.2017   
 30.06.2016 

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

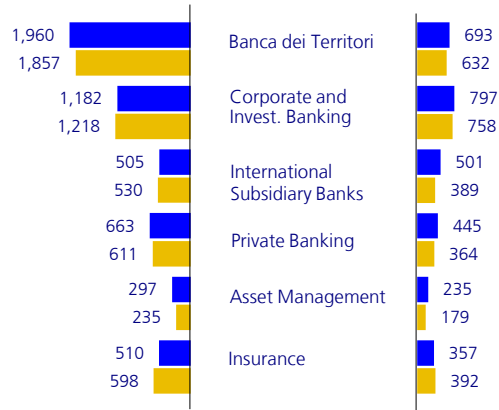
### Operating income



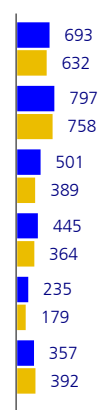
### Operating costs



### Operating margin



### Net income (loss)



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

30.06.2017

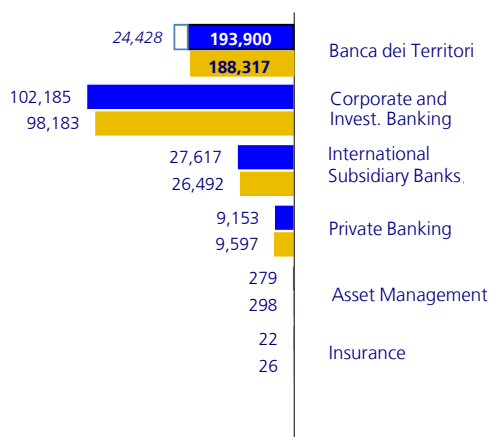
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# Balance sheet figures and alternative performance measures

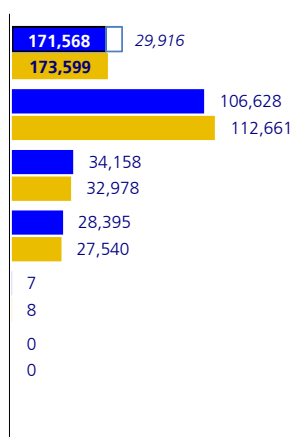
Consolidated balance sheet figures (millions of euro)		Changes (Excluding operations acquired)	
		amount	%
Financial assets	253,662	7,638	
	255,411		-1,749 -0.7
<i>of which: Insurance Companies</i>	147,621		
	142,543		5,078 3.6
Loans to customers	369,089	24,428	
	364,713		4,376 1.2
Total assets	741,954	46,064	
	725,100		16,854 2.3
Direct deposits from banking business	382,132	29,916	
	393,798		-11,666 -3.0
Direct deposits from insurance business and technical reserves	147,755		
	144,098		3,657 2.5
Indirect deposits:	486,319	19,902	
	468,855		17,464 3.7
<i>of which: Assets under management</i>	325,897	42	
	314,081		11,816 3.8
Shareholders' equity	53,164		
	48,911		4,253 8.7

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

### Loans to customers



### Direct deposits from banking business



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

30.06.2017

(Consolidated figure excluding operations acquired)

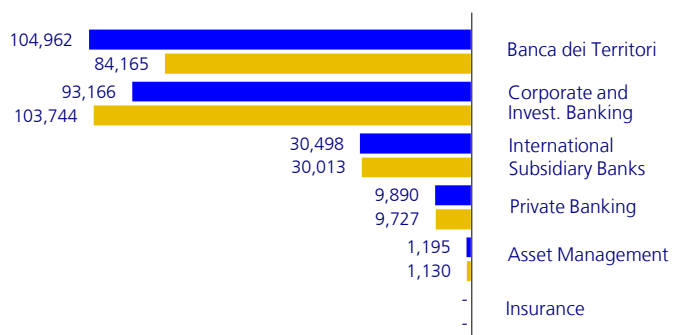
30.06.2017 (Figure of operations acquired)

31.12.2016 (Consolidated figure)

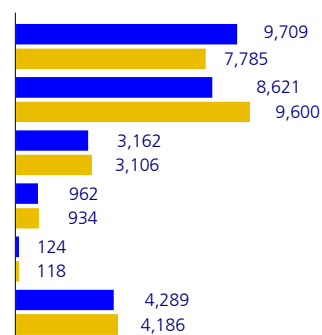
## Other alternative performance measures

Consolidated capital ratios (%)	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	
TIER 1 Capital / Risk-weighted assets	
Total own funds / Risk-weighted assets	
Risk-weighted assets (millions of euro)	
Absorbed capital (millions of euro)	

### Risk-weighted assets by sector (millions of euro)



### Absorbed capital by sector (millions of euro)



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a.

30.06.2017

31.12.2016

### Consolidated profitability ratios (%)

Cost / Income	49.2	48.8
Net income / Average shareholders' equity (ROE) <sup>(a)</sup>	6.5	7.0
Net income / Total assets (ROA) <sup>(b)</sup>	0.4	0.5

### Earnings per share (euro)

Basic earnings per share (basic EPS) <sup>(c)</sup>	0.31	0.10
Diluted earnings per share (diluted EPS) <sup>(d)</sup>	0.31	0.10

### Consolidated risk ratios (%)

Net bad loans / Loans to customers	3.8	4.1
Cumulated adjustments on bad loans / Gross bad loans to customers	60.7	60.6

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

<sup>(a)</sup> Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period does not consider non-recurring components and has been annualised.

<sup>(b)</sup> Ratio between net income and total assets. The figure for the period does not consider non-recurring components and has been annualised.

<sup>(c)</sup> 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.

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

Operating structure	30.06.2017	31.12.2016	Changes amount
<b>Number of employees <sup>(e)</sup></b>	<b>88,837</b>	<b>89,367</b>	<b>-530</b>
Italy	64,553	64,563	-10
Abroad	24,284	24,804	-520
<b>Number of financial advisors <sup>(e)</sup></b>	<b>5,076</b>	<b>5,032</b>	<b>44</b>
<b>Number of branches <sup>(f)</sup></b>	<b>5,803</b>	<b>5,163</b>	<b>640</b>
Italy	4,648	3,978	670
Abroad	1,155	1,185	-30

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

<sup>(e)</sup> The figures at 30.06.2017 do not include the personnel of the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. (9,303 employees in Italy, 833 abroad and 136 financial advisors).

<sup>(f)</sup> Including Retail Branches, SME Branches and Corporate Branches. The figures at 30.06.2017 include the branches of the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. (750 in Italy e 21 abroad). The figures for comparison have not been restated.

30.06.2017   
31.12.2016 



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# Executive summary

## The macroeconomic context

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### The economy and the financial and currency markets

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In the first half of 2017, world economic growth strengthened its pace and became more widespread. Growth in international trade intensified. Inflation rebounded slightly. In many cases, economic figures proved surprisingly positive.

The exception to this picture was the United States. Despite expectations that fiscal policy would take an expansive turn under the new federal government, this proved not to be the case. Furthermore, the president and his entourage are under pressure from parliamentary and judicial inquiries. Overall, macroeconomic figures have been below expectations, although consistent with moderate economic expansion and full employment. Faced with the risk of the economy overheating, the Federal Reserve tightened its monetary policy stance. Official interest rates have been raised twice since the start of the year by a total of 50 bps. The Federal Reserve also warned of a gradual reduction in reinvestments of principal payments at maturity.

The Eurozone witnessed stunning growth in the first half, far above the standards of recent years. Recoveries in exports and fixed investments more than offset the slight slowdown in consumption. Optimism has been fuelled not only by confidence surveys, but also by real data. Industrial output grew by 4% year on year in May, while GDP growth in the second quarter kept up the strong pace posted in the first quarter (0.6% quarter on quarter). Growth in economic activity across all countries in the Eurozone drove employment figures up and the unemployment rate down to 9.1%. Improved confidence figures were favoured by various factors, including general election outcomes in the Netherlands and France, which dispelled the risk of a victory by Euro-sceptic parties and, therefore, of major crisis in the Eurozone. Instead, the outcome of the French general election has raised expectations of fresh stimulus to the Eurozone reform process. The start of negotiations for the United Kingdom's exit from the European Union did not have any major repercussions, with the exception of the impact on trade flows of a devalued Sterling.

Strong confidence over economic growth has also fully reached Italy. GDP in the first quarter grew by 0.4% year on year. Trend surveys and industrial output figures suggest a continuation of the positive growth momentum in the second quarter, driven by increase in exports and a higher propensity to invest in businesses, as well as by consumption growth. As a result, consensus forecasts of GDP growth have been revised upwards. Employment growth slowed due to the phasing out of extraordinary measures which buoyed growth through 2016, though it remained sufficient to drive the unemployment rate down to 11.1% in June. Higher energy prices and growth in demand began to impact inflation, which rose temporarily to 2% in April, but then fell again. In terms of public finances, the primary budget surplus was insufficient to lower the debt-to-GDP ratio in a significant way, and the Italian government estimates it will remain about unchanged this year.

The European Central Bank began to adapt its monetary policy stance to improvements in economic conditions and the balance of risks. After announcing an initial reduction in its securities purchase programme from 80 to 60 billion euro as of April, in June the ECB dropped any reference to the likelihood of further interest rate cuts. Various ECB spokespeople also began to mention the need to adjust monetary policy further. Nevertheless, the ECB continued to forecast a rise in official rates only once the asset purchase programme is wound up completely, which will not be before December 2017.

The ECB's monetary policy stance led to a strengthening of the exchange rate and a rise in medium/long-term interest rates. The ten-year Bund yield, which was negative at the end of 2016, rose to 0.47% at the end of the first half, while the ten-year BTP yielded 2.15% at the end of the second quarter, up from 1.83% at the end of 2016. The spread with German bonds remained essentially stable, although pressures were felt during the French electoral campaign.

The euro/dollar exchange rate rose almost constantly between January and June, gaining an overall 8.7% to close the quarter at \$1.14.

The trend in international stock markets was positive overall in the first half of 2017, as risk aversion in investors gradually fell and stock prices showed lower volatility.

Various factors have contributed to propping up stock markets. One is the consolidation of world economic growth, in both emerging countries and major advanced economies. The flow of positive economic figures led to the upward review of growth forecasts, especially for the Eurozone and Japan. Moreover, the political risk posed by elections in the Netherlands and, in particular, France failed to materialize, with pro-euro and pro-European Union political parties emerging from the vote with stronger consensus, which helped lower the risk premium on stocks.

After dropping to a relative low in February, stock markets in the Eurozone progressively rose, driven by favourable developments in company earnings. The first quarter, in particular, delivered the most positive surprises, accompanied by confirmation or improvement in guidance for yearly results.

The Euro Stoxx index closed the first half up by 6.5%; the CAC 40 rose by 5.3% at the end of the period; the Dax 30 performed well, rising by 7.4%, while the IBEX 35 index outperformed all the main Eurozone benchmarks, posting a rise of 11.7%. Outside the Eurozone, the Swiss market index SMI appreciated by 8.4%, while the United Kingdom's FTSE 100 index closed the quarter marginally up (+2.4%).

In the United States, the S&P 500 closed the period with a rise of 8.2%, while the Nasdaq Composite Index of technology stocks rose by 14.1%. The overall performance of the main Asian stock markets was slightly positive: the Chinese SSE A-Share benchmark index ended the half up by 2.9%, while the Nikkei 225 index posted a rise of +4.8% at the end of the half.

The overall performance of the Italian stock market was satisfactory, driven by the recovery in the banking sector (which represents 26% of the FTSE MIB Index) and the progressive improvement in economic growth outlooks and company earnings. The FTSE MIB closed the half up by 7%, while the FTSE Italia All Share Index rose by 8.6%. Mid-cap stocks posted the strongest performance, with the FTSE Italia STAR Index jumping by 24.3% over the half year. Alongside healthier fundamentals,

growth was driven by new Individual Savings Plans (which invest a major part of their funding in stocks not included in the FTSE MIB benchmark).

European corporate markets closed the first half of 2017 on a positive note, with high-yield (HY) bonds outperforming investment-grade (IG) securities. As seen in 2016, central bank monetary policies, in particular the ECB's corporate sector purchase programme (CSPP), were the main drivers behind market growth, through an essential "technical" support for stocks. Markets also benefited from positive macroeconomic fundamentals, with moderate growth coupled with only marginal inflationary pressures.

The key catalysts for markets in the first months of the year were expectations over major general elections due in Europe. After initial uncertainty and heightened volatility, the outcome of French general elections, which allayed fears of a possible surge in anti-euro populist movements, gave markets a good boost, fuelling a recovery in growth.

In terms of performance, HY securities saw their spreads drop by around 25% over the first half of 2017, as investors shifted their interest onto higher-risk securities in search of better returns. IG securities also posted a drop of around 10% in their spreads, reducing what was already a very low level.

Volumes of new issues in the first half of 2017 were high, driven by investors' quest for greater returns on the one hand, and by favourable funding conditions for issuers on the other. In this regard, a major contribution came from euro-denominated issues made by US companies.

## The emerging economies and markets

In the first quarter of 2017 (last figure available), GDP growth for a sample covering 75% of emerging countries, rose to 3.9% on an annual basis from 3.8% in the fourth quarter of 2016. Asian economies proved to be the most dynamic (especially India). The downward economic trends of major commodity exporter countries appear to have bottomed out, although recession persisted in some (GDP growth was -0.4% in Brazil and -0.6% in Nigeria). In others, GDP grew at only modest rates due to structural restraints (0.5% in Russia) or to budget balancing policies (such as for the Gulf Cooperation Council - GCC and especially Saudi Arabia, where GDP posted growth of 0.9%, and South Africa, where GDP grew by a mere 1%).

Turning to countries where Intesa Sanpaolo subsidiaries are located, in the first quarter (latest figures available) GDP growth accelerated in CEE/SEE countries, driven by strong growth in Hungary (+4.1%) and Slovenia (+5.3%) in the CEE bloc, and in Romania (+5.6%) in the SEE bloc. Slower GDP growth was instead reported in Croatia (+2.5%) and Serbia (+1.2%), partly due to seasonal factors. Among other countries where the Group is present, the Ukrainian economy slowed (+2.5% in the first quarter of 2017 compared to +4.8% in the fourth quarter of 2016) due to the trade embargo on the Donbass region.

Egypt picked up the pace of its economic growth (+4.3%, up from +3.8%), driven by recovery in the major segments of the services sector (tourism, transport, and telecommunications), construction, and manufacturing.

The year-on-year inflation rate across a sample covering 75% of emerging economies dropped from 3.7% as at December 2016 to 3.2% as at June 2017. The first half saw an easing of inflationary pressures fuelled by past currency depreciation in Brazil (where price growth slowed from 6.3% at end 2016 to 3% as at June 2017), Russia (from 5.4% to 4.4%), and South Africa (from 6.7% to 5.4%). Inflation instead rose in countries whose currencies had depreciated to varying degrees at the end of 2016. This was the case in Turkey (from 8.5% in December 2016 to 10.9% in June 2017), Mexico (from 3.4% to 6.4%), and, among countries where Intesa Sanpaolo subsidiaries are located, in Ukraine (from 12.4% to 15.6%) and Egypt (from 23.3% to 29.7%), where inflation was driven up by rises in regulated prices and lower subsidies.

Inflation growth and currency pressures led the central banks of Turkey and Mexico to raise interest rates moderately in the first weeks of 2017. Interest rates also rose in some GCC countries, which followed in the steps of the US Federal Reserve given that their currencies are pegged to the US dollar. In Asia, the Chinese Central Bank signalled it was taking a less accommodating monetary policy stance by raising the refinancing rate by 10 bps twice in the first quarter. A weakening of inflationary pressures and a recovery in their respective currencies led the central banks of various Latin American commodity exporters to cut interest rates in their countries (Brazil, Chile, Colombia, and Peru).

In the countries where Intesa Sanpaolo subsidiaries are located, the monetary policy remained accommodating in all CEE/SEE countries, following the prevalent trend in the Eurozone. Concerning other countries, Egypt raised interest rates significantly (+400 bps overall) in two actions (the second effected after the close of the first half, at the start of July), bringing the overnight borrowing rate up to 19.75%. The increases were motivated by the need to combat inflationary pressures (and the associated risks of second-order effects) fuelled by the past depreciation of the currency, in an effort to reconstitute reserves. Lower inflation and more stable domestic financial conditions enabled Russia to cut interest rates twice, bringing the reference rate down from 11% to 9%, and Ukraine to lower its reference rate from 14% to 12.5%.

The MSCI Emerging Markets Index rose by 13.7% in the first half of 2017, outperforming both the Euro Stoxx (+6.5%) and the S&P USA Index (+8.2%). Growth was driven primarily by a number of Asian markets (Hong Kong, +17.1%; Bombay, +15.5%; Jakarta, +10%) and Latin American markets (Buenos Aires, +29.5%), which more than offset the weakness of various Gulf markets (Oman, Qatar, and Dubai), affected by recent local geopolitical tensions. As regards the countries where Intesa Sanpaolo subsidiaries are located, CEE and SEE markets posted growth generally in line with or slightly above the Euro Stoxx Index, with Romania, Slovenia, and Hungary gaining over 10%. The exception to the trend was Croatia, where the market fell by 6.5%, driven down by domestic political uncertainties and fears that the economy may perform below expectations. Renewed weakness in hydrocarbon prices and the persistence of Western sanctions in turn penalized the Russian stock market (-13%). Brighter prospects for the economy, thanks to the new currency regime and government measures to attract investment, instead led the Egyptian stock market to post a recovery (+9.3%).

Currency markets in the first half of 2017 witnessed a drop in value in the US dollar, arresting a rising trend that had lasted for over two years. The OITP index, which shows the value of the US dollar against a basket of emerging country currencies, depreciated by over 5%. Turning to countries where Intesa Sanpaolo subsidiaries are located, the Russian rouble gained 2% against the US dollar, while the Ukrainian hryvnia, buoyed by the IMF-backed adjustment programme, gained 3.8%. The Egyptian pound, after depreciating sharply towards the end of 2016 following the currency's float, remained stable at around 18 EGP to

1 USD. The currencies of Central and South-Eastern Europe as a whole followed the euro, which appreciated by around 8% against the US dollar in the first half of the year.

A number of Gulf countries (Saudi Arabia, Bahrain, Oman, and Qatar) saw their ratings/outlooks downgraded in the first half of 2017 in response to the slow progress made in adjusting their economies to the new oil price scenario (in which prices are much lower than in the past) and political tensions in the region. Concerns over lending trends led Moody's to cut its credit rating for China (from Aa3 to A1 last May), while recent corruption episodes led both S&P and Moody's to change the outlook on their credit ratings for Brazil (BB and Ba2 respectively) to negative. Thanks to progress in financial stabilisation, S&P lifted the outlook to its BB+ credit rating on Russia to positive.

## The Italian banking system

### Interest rates and spreads

In the first half of 2017, bank rates showed mixed trends. While rates largely stabilized around the historic lows previously reached, signs of increase emerged for interest rates on new loans. The downward trend in the overall cost of funding bottomed out in the second quarter, due to the stabilization of the average deposit rate and the rate of the stock of bonds. In the case of deposits, especially overnight deposits, the historic lows reached by interest rate levels justify the slowdown in the downward trend. The average interest rate on new time deposits showed a certain stickiness over the first half, fluctuating between 0.8% and 0.9%, after having fallen below the floor of 1% at the start of the year.

Interest rates on new loans showed signs of rising. The turnaround was driven by lending rates on new loans to households for house purchase, which at the start of year bounced back from the absolute low reached in 2016, stabilizing at what are, nevertheless, historically low levels. Small, though discontinuous increases were observed in lending rates on new loans to non-financial companies, which on the whole have put an end to the downward trend, despite the usual monthly fluctuations. Compared to Europe, Italian lending rates have fallen again below the Eurozone average also for smaller loans, while for loans of over 1 million euro, lending rates have shown a significantly negative spread since the last quarter of 2015. In this scenario, a slowdown was observed in the fall in interest rates on the stock of loans, with the overall average rate dropping below 2.8% around midyear, to levels never seen before.

With the average lending rate continuing to decline and the cost of funding stabilizing in the second quarter, the banking spread between lending and funding rates tightened even further around midyear (estimated average of 1.98% in the first half of 2017 compared to 2.05% in the second half of 2016).

### Loans

Bank loans to the private sector continued their recovery over the first half, growing at a rate of around 1%. The recovery was led by loans to consumer households, which gradually speeded up to a pace of 2.5% year on year in May. Lending to households was driven by mortgage loans, which, although remaining at high volumes, have lost pace compared to the high growth rates posted over the three years 2014–16. Specifically, growth in fixed-rate mortgage loans continued, albeit at a slower pace in the second quarter, thanks to the persistently low interest rates applied. In contrast, floating-rate loans recorded a decline. The trend in mortgage loans to households is consistent with the recovery in the residential real estate market, which continued to grow in the first quarter of 2017, though at a slower pace compared to the double-digit growth rates posted last year. Consumer credit also grew, driven by purchases of durable goods.

Loans to non-financial companies continued to remain substantially stagnant. In the summer of 2016 the overall aggregate stopped declining, with slight growth of just above zero recorded in the first half of 2017. The growth of medium-term loans continued to offset the negative trend in short-term loans, in a scenario of liquidity deemed sufficient or more than sufficient by a large majority of businesses. The overall development was due to different dynamics depending on sector and company size. Specifically, growth continued in loans to the services sector, while loans to the manufacturing sector returned to low levels of growth towards midyear. In contrast, the major contraction in loans to the construction sector showed no signs of abating. Looking at borrower size, loans to medium and large businesses continued to grow slightly, while loans to small businesses kept declining.

Trends in loans to business were shaped by the generally positive supply and demand scenario in the first half of 2017. According to the lending survey conducted by the Bank of Italy, banks have continued to cautiously reduce their margins and improve contractual terms and conditions, driven by the pressures of competition. In addition, after dropping off at the start of the year, business demand grew slightly, especially as regards long-term loans, driven by fixed investment needs and low interest rates. Similarly, household demand continued to grow for consumer credit and, to a lesser extent, residential mortgages. The outlook suggests demand will grow further in the second half of the year for all types of loans.

Businesses assessed credit access conditions to be favourable, expressing the highest score on record since this kind of survey was first initiated with the emergence of the financial crisis in 2008.

Credit quality indices continued to show signs of improvement, thanks to more favourable economic conditions and the sale and securitisation of bad loans by banks. The stock of net bad loans in the first part of the year declined by approximately 10 billion euro compared to the end of 2016, and by half a percentage point to 4.4% in terms of their ratio to total loans. The formation rate for new non-performing loans stabilised, after falling significantly in 2016. In the first quarter, the ratio of new non-performing loans to performing loans remained at its lowest level since 2008.

## Direct deposits

Bank funding in the first half of 2017 confirmed the trends observed previously, with growth in deposits driven by the significant increase in overnight deposits. At the same time, the double-digit decline in time deposits continued. The performance of customer deposits continued to benefit from strong growth in current account deposits held by non-financial companies and the solidity of household deposits. Growth in deposits held by residents continued to be offset by the reduction in the stock of bank bonds, the trend of which was affected by customer portfolio reallocation processes. Overall, customer funding continued to decline slightly, although at a slower pace than in the previous year. When considering refinancing under the Eurosystem, which increased in the first half of the year, total bank funding returned to moderate growth levels as of March.

## 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 reflected the continued decline in bank bonds and the low attractiveness of government bonds in a scenario of negative interest rates.

As regards the asset management market, the first half of 2017 proved particularly positive for mutual funds, which more than tripled their inflows year on year. Net inflows were driven by bond funds, followed by balanced funds and flexible funds. Also worthy of note was the introduction on the market of Individual Savings Plans, which proved a great success with savers and contributed to growth in mutual fund inflows. In contrast, net inflows to portfolio management schemes fell compared to 2016, largely due to the weak trend in institutional mandates.

Turning to the insurance sector, new insurance business posted a continuing decline. Specifically, subscriptions of products with a higher financial content (class III) posted a major recovery, however new subscriptions of traditional policies (classes I and V) continued to fall.

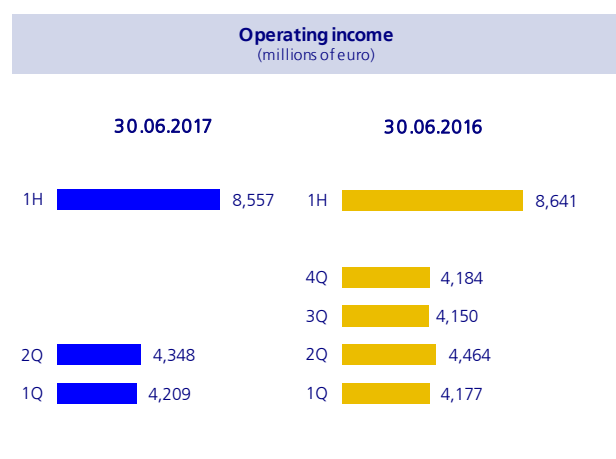
## Intesa Sanpaolo in the first six months of 2017

### Consolidated results

The consolidated income statement for the first half of 2017 of the Intesa Sanpaolo Group posted net income of 5,238 million euro, compared to 1,707 million euro in the first half of 2016.

The significant half-year net income figure was in part due to the recognition, in June 2017, of the 3.5 billion euro public contribution assigned by the Italian government to offset the impact on the Group's capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca (hereinafter the Aggregate Set or segregated scope), as part of an operation described further on in this chapter. The contribution will ensure a phased-in Common Equity Tier 1 Ratio of 12.5% to the risk-weighted assets (RWA) of the Aggregate Set.

Net of the public contribution, net income for the first half of 2017 would have posted a figure of 1,738 million euro, up by 1.8% compared to the first half of 2016. This was despite the major increase in charges incurred to support the stability of the banking industry, which in the first half of 2017 totalled 460 million euro (672 million before tax), compared to 113 million euro in the first half of 2016 (160 million before tax).



A detailed breakdown of the components of operating income shows net interest income for the first half of 2017 of 3,620 million euro, down on the first half of 2016 (-1.8%), due to the reduced contribution of interest from financial assets, while interest income on customer dealing increased. Excluding the effect of the depreciation of the Egyptian currency, net interest income would be up by 1.5%.

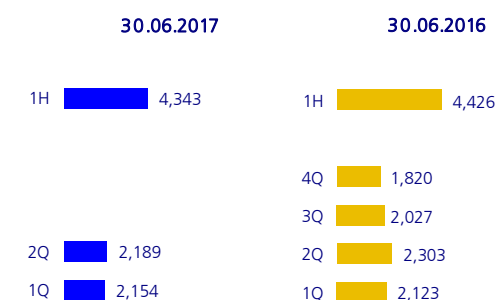
The contribution of net fee and commission income, which makes up almost 44% of operating income, increased significantly (+5.8% to 3,751 million euro), thanks to the positive trend in management, dealing, and consultancy activities (approximately +13%), primarily attributable to dealing and securities placement activities (approximately +47%).

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 decrease (approximately -8% to 523 million euro), due to a lower contribution from the net investment result.

Profits on trading posted a decline (-15% to 591 million euro)

compared to the first half of 2016. This was due entirely to the lower dividend received on the stake held in the Bank of Italy (121 million euro in 2016 compared to 10 million euro in 2017), in application of Legislative Decree 133 of 30 November 2013 which establishes that stakes in excess of 3% of the share capital are no longer remunerated.

### Operating margin (millions of euro)



As a result of these revenue and cost trends, the operating margin amounted to a 4,343 million euro, down by 1.9% year on year.

Net adjustments to loans decreased by approximately 11%. The annualised cost of credit – expressed as the ratio of net adjustments to net loans – decreased compared to the first half of 2016 (78 bps versus 90 bps), and was much lower than the value at the end of 2016 (102 bps).

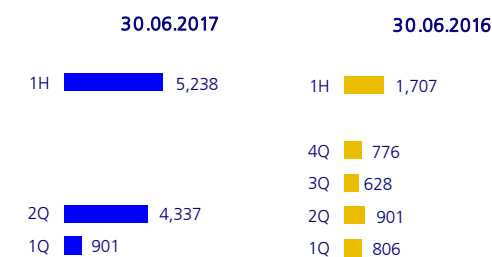
Net provisions and net impairment losses on other assets decreased significantly overall compared to the first half of 2016 (60 million euro compared to 240 million euro). More specifically, provisions decreased (38 million euro compared to 113 million euro), along with net impairment losses on other assets (22 million euro compared to 127 million euro).

Other income (expenses) include realised gains and losses on investments and income and expenses not strictly correlated to continuing operation and amounted to 3,813 million euro (201 million euro in the first half of 2016). As reported above, the figure includes the 3.5 billion euro public contribution assigned by the Italian government to offset the impact on the Group's capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The contribution will ensure a phased-in Common Equity Tier 1 Ratio of 12.5% to the risk-weighted assets (RWA) of the Aggregate Set. The caption also includes the positive effect of the partial disposal of the stake in NTV – Nuovo Trasporto Viaggiatori and the related fair value measurement of the remaining investment (totalling 109 million euro), which no longer qualifies as an investment subject to significant influence.

In the first half of 2017, there was no profit or loss from discontinued operations, compared to the profit of 48 million euro realised in the first half of 2016 and related to Setefi and ISP Card, both of which were subsequently sold.

As a result of the trends illustrated above, gross income amounted to 6,664 million euro, compared to 2,818 million euro in the first half of 2016.

### Net income (loss) (millions of euro)



As previously indicated, in the first half of 2017 the charges aimed at maintaining the stability of the banking industry had an extensive impact. These amounted to 460 million euro, net of tax (672 million euro before tax) compared to 113 million euro in the first half of 2016 (160 million before tax), and consisted of costs for ordinary contributions to resolution and guarantee funds (124 million euro net of tax, equal to 175 million euro before tax) and charges deriving from the further impairment of the Atlante Fund investment (301 million euro net of tax, equal to 449 million euro before tax). The caption also included 35 million euro, net of tax, in charges incurred in relation to the compulsory administrative liquidation of Banca Popolare di Vicenza and Veneto Banca. After recording minority interests of 13 million euro, the income statement for the first half of 2017 closed, as stated, with net income of 5,238 million euro, compared to 1,707 million euro in the first half of 2016.

The income statement for the second quarter in comparison to the previous quarter showed growth in operating income (+3.3% to 4,348 million euro). Specifically, net interest income in the second quarter was slightly higher than in the first quarter (+0.6%), due to the lower cost of funding, while growth in net fee and commission income (+2.2%) was driven by favourable market conditions and higher revenues from commercial banking activities.

Income from insurance business in the second quarter showed a decline compared to the first (-15.2%), and was driven down by the lower net investment result, which was only partially offset by an improved technical margin.

Trading activities performed strongly in the second quarter of the year (+62% circa), thanks to higher returns on trading in AFS and financial liabilities.

Other operating income and expenses amounted to 72 million euro, showing a drop compared to the first half of 2016 (143 million) due to the lower contribution of investments carried at equity, which are included in this caption together with other income and expenses from continuing operations.

In relation to the above dynamics, operating income in the first half of 2017 amounted to 8,557 million euro, down 1% compared to the first half of 2016.

Operating costs (4,214 million euro) were stable, as a result of a slight increase in personnel expenses (+0.2%) and a reduction in administrative expenses (-1.8%), due to the savings achieved on general structure costs, property management expenses, advertising, and other costs. Conversely, amortisation and depreciation increased (+4.8%), due to amortisation of intangible assets as a result of investments made.

The cost/income ratio for the period was 49.2%, compared to 48.8% in the first half of 2016.

Operating costs in the second quarter rose , compared to the first quarter (+5.1%) with increases in both personnel expenses and administrative expenses.

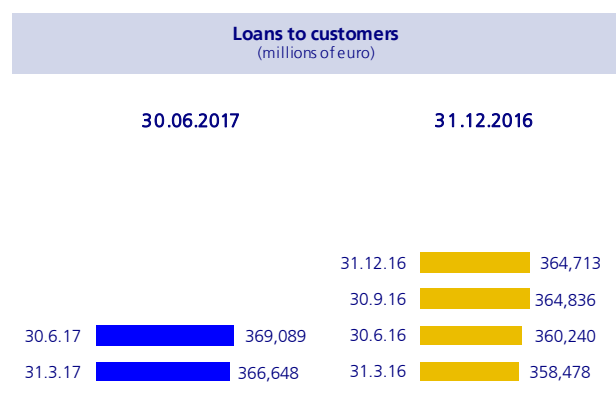
In relation to revenue and cost trends, the operating margin for the second quarter was higher than the margin in the first quarter (approximately +1.6% to 2,189 million euro).

Adjustments to loans recognised in the second quarter rose with respect to the first quarter (approximately +6%), mainly due to higher impairment of bad loans and guarantees and commitments. Net provisions and net impairment losses on other assets also increased, while being particularly low in the first quarter.

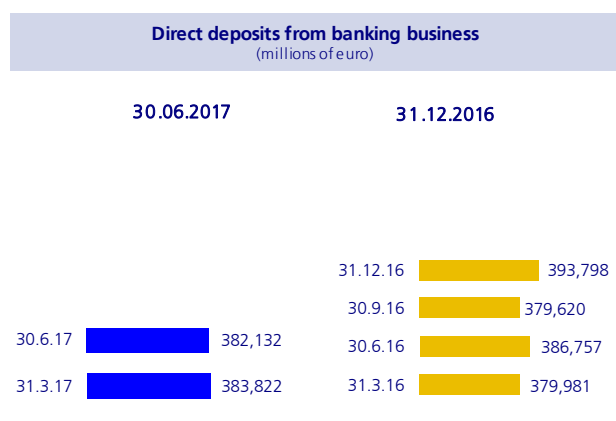
Other income in the second quarter included the abovementioned 3.5 billion euro public contribution for the acquisition of certain assets and liabilities, and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca.

After the recognition of income tax, charges for integration and exit incentives, the effects of purchase price allocation, levies and other charges concerning the banking industry, income on discontinued operations, and minority interests, the income statement for the second quarter closed with net income of 4,337 million euro (837 million euro net of the abovementioned public contribution), compared to 901 million euro for the previous quarter.

As regards balance sheet aggregates, we report, as illustrated in detail in the following chapters, that the balance sheet as at 30 June 2017 reflects the acquisition, effective as of 26 June 2017, of certain assets and liabilities, and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The scope of the assets and liabilities acquired, as considered in this Half-yearly Report, and all associated values should be considered provisional in nature until the related due diligence activities are completed. In these circumstances, no adjustments were made to historic data to reflect retrospectively the effects of the acquisition. Consequently, all changes shown and the related commentary refer, unless otherwise specified, to balance sheet figures net of the segregated scope acquired.

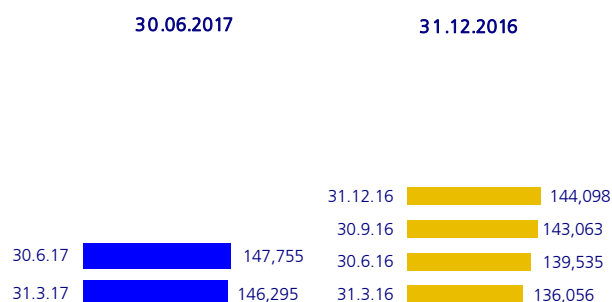


As at 30 June 2017, loans to customers posted positive growth compared to the figure as at 31 December 2016 (+1.2% to 369 billion euro, net of 24 billion euro in loans included in the segregated scope acquired). The positive trend in commercial banking loans, up 3.3% overall, due to the positive performance of advances and loans, was offset by the lower amount of loans represented by securities (approximately -9%) and of short-term financial loans represented by outstanding repurchase agreements (approximately -6%).



With regard to funding, direct deposits from banking business showed a downward trend compared to the end of 2016 (-3% to approximately 382 billion euro, net of 30 billion euro in deposits in the segregated scope acquired). This trend was driven by the drop in bond funding (approximately -9%), subordinated funding (approximately -3%), and current accounts and deposits (approximately -2%). Growth was instead observed in funding through certificates of deposit (+3%) although their absolute value was relatively low. Repurchase agreements decreased (-3.6%).

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



On the other hand, direct deposits from insurance business, which include technical reserves, recorded an increase (+2.5%, to almost 148 billion euro): the overall increase was almost completely attributable to the higher value of financial liabilities of the insurance segment designated at fair value (approximately +10%), with technical reserves – which represent the amounts owed to customers subscribing to traditional policies – slightly down (-2.4%). The new business of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to over 11 billion euro for the period.

As at 30 June 2017, indirect deposits exceeded 486 billion euro, up 17.5 billion euro compared to the end of 2016 (+3.7%). Given the favourable conditions of the financial markets, the performance was determined by the increase in both assets under management, driven by insurance segment products and mutual funds, and assets under administration.

Assets under management also rose (approximately +12 billion euro, equal to +3.8%, to approximately 325 billion euro), driven primarily by higher net inflows to investment funds, which savers appeared to prefer (approximately +7 billion euro, equal to +6.7%) and towards insurance products (+4.1 billion euro, equal to +3.1%). Pension funds and portfolio management schemes also posted growth (+5.4% and +2.6% respectively).

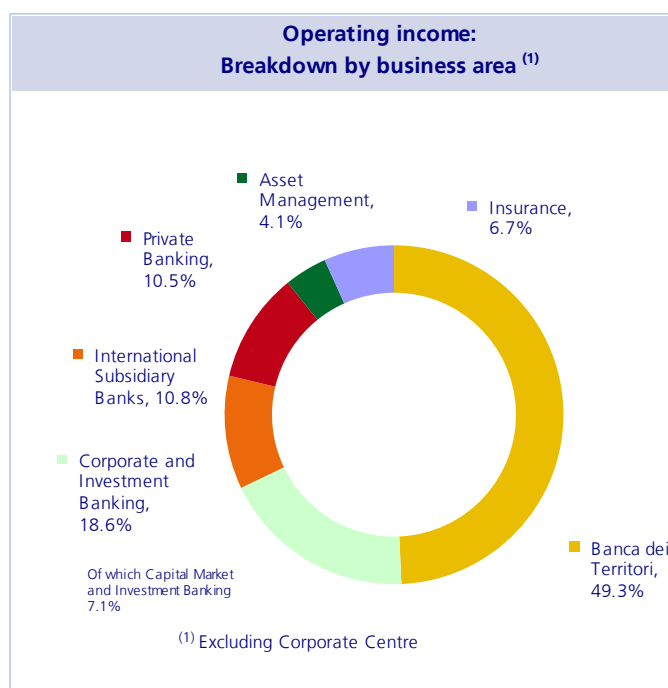
Assets under administration recorded an increase (+5.6 billion euro, equal to +3.6%) attributable to dealings with institutional customers and securities and third-party products in customer portfolios.

Including the acquired operations of Banca Popolare di Vicenza and Veneto Banca, indirect deposits at the end of the first half of the year totalled over 506 billion euro.

## Results of the Business Units

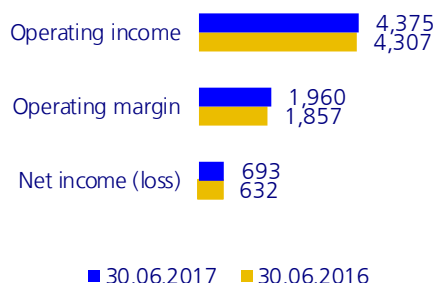
The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre - which is responsible for guidance, 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 11%), private banking activity (10%), insurance activity (approximately 7%) and asset management (approximately 4%).



(millions of euro)

### Banca dei Territori



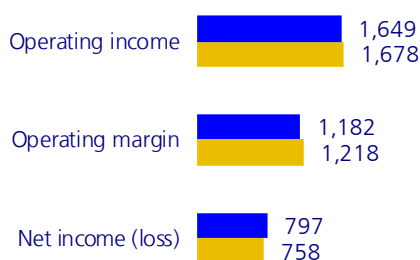
■ 30.06.2017 ■ 30.06.2016

In the first half of 2017, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 4,375 million euro (+1.6% compared to the first half of 2016). In detail, net fee and commission income rose (+5%), driven above all by the asset management segment. Despite growth in volumes, net interest income instead showed a decline (-2%), affected by the more limited contribution of the hedging of core deposits. Among the other revenue components, which nevertheless provide a marginal contribution to the Division's income, both profits on trading and other net operating income showed positive performance. Operating costs decreased (-1.4% to 2,415 million) thanks to savings in administrative expenses. As a result of these trends, the operating margin rose by 5.5% to 1,960 million. Gross income rose by the higher rate of 12.6% to total 1,180 million, thanks to lower adjustments and provisions. After allocation to the Division of charges for integration of 23 million euro and the effects of purchase price allocation on the income statement for 2 million euro, net income amounted to 693 million euro, up 9.7%.

Balance sheet figures at the end of June 2017, including the acquired operations of Banca Popolare di Vicenza and Veneto Banca, which have temporarily been allocated to the Banca dei Territori Division, but will be definitively allocated as the integration process progresses, due to end in 2018, show 218,328 million euro in loans to customers and 201,484 million euro in bank funding. Net of the segregated scope, loans to customers totalled 193,900 million euro, up by 5.6 billion euro (equal to +3%) compared to the start of the year. Their growth was driven essentially by higher medium/long-term loans to individuals (loans to households and personal loans) and to businesses. Direct deposits from banking business totalled 171,568 million euro, showing a drop of 2 billion euro (-1.2%) due to securities issued.

(millions of euro)

### Corporate and Investment Banking



■ 30.06.2017 ■ 30.06.2016

The Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – posted a slight drop in operating income compared to the first half of 2016 (-1.7% to 1,649 million euro).

In detail, net interest income was up (+11.8%), due to the greater contribution from customer dealing. Net fee and commission income instead declined (-2.9%), primarily due to the negative performance of the commercial banking segment, which was only partially offset by higher fee and commission income from the capital market segment. Profits on trading decreased (-21.3% to 378 million euro), due to the lower contribution of the global markets business. Operating costs rose slightly (+1.5% to 466 million euro), mostly due to higher personnel expenses. As a result of the revenue and cost dynamics described, the operating margin came to 1,182 million euro, recording a drop of 3%. Gross income remained substantially in line with the figure for the first half of 2016 (-0.6% to 1,104 million euro) and benefited from the partial sale of the equity interest held in NTV and the fair value

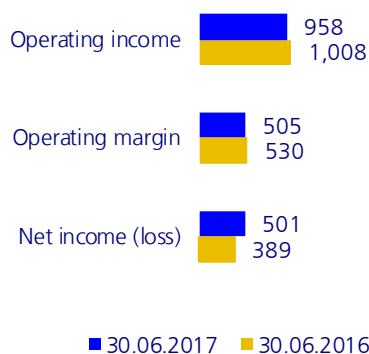
measurement of the remaining interest held following its reclassification to entities not subject to significant influence. Net income amounted to 797 million euro (+5.1% compared to 758 million euro in the first half of 2016).

The Division's intermediated volumes decreased compared to the end of December 2016 (-1%). Specifically, loans to customers, totalling 102,185 million euro, rose by 4 billion euro (+4.1%), whereas direct deposits from banking business, totalling 106,628 million, fell by 6 billion euro (-5.4%), driven by amounts due to customers and securities issued.



(millions of euro)

## International Subsidiary Banks



In the first half of 2017, the 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 – was 958 million euro, -5% compared to the same period of the previous year (+8% at like-for-like exchange rates). The drop was affected by the depreciation of the Egyptian pound in 2016. In detail, net interest income fell (-8.4% to 667 million euro), while net fee and commission income rose (+2.1% to 241 million euro). Profits on trading also increased (+33.3% to 80 million euro).

Operating costs of 453 million euro decreased by 5.2% compared to the same period in 2016 (+4.3% at like-for-like exchange rates). As a result of the above revenue and cost trends, the operating margin came to 505 million euro, down 4.7% (+11.4% at like-for-like exchange rates). Gross income increased significantly (+18.3%, to 602 million euro), driven by the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the

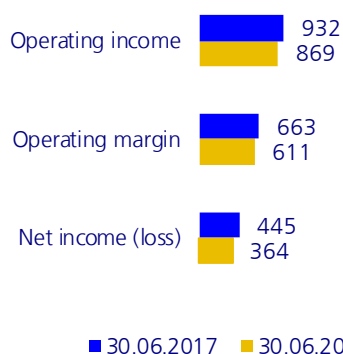
entities subject to significant influence.

The Division closed the first half of 2017 with net income of 501 million euro, up compared to the 389 million euro recorded in the same period of 2016.

The Division’s intermediated volumes grew compared to the end of December 2016 (+3.9%) owing to positive performance by loans to customers (+4.2%) and direct deposits from banking business (+3.6%), in both amounts due to customers and issued securities.

(millions of euro)

## Private Banking



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.

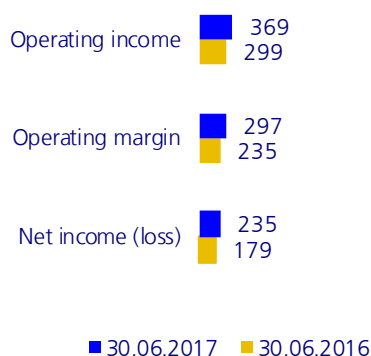
In the first half of 2017, the Division posted gross income of 646 million euro, up by 9% on the first half of 2016. Growth was driven primarily by higher net operating income (net fee and commission income and profits on trading) and by lower provisions. Operating costs also increased, largely due to higher personnel expenses, driven by the investment in the size and professionalism of the work force. Net income came to 445 million euro (+22%).

As at 30 June 2017, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 176.3 billion euro (+10.3 billion euro compared to the end of 2016). The increase was largely due to higher net

inflows and, to a lesser extent, the effect of performance on assets. The assets under management segment amounted to 110 billion euro, up by 5.9 billion euro compared to 31 December 2016.

(millions of euro)

## Asset Management



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

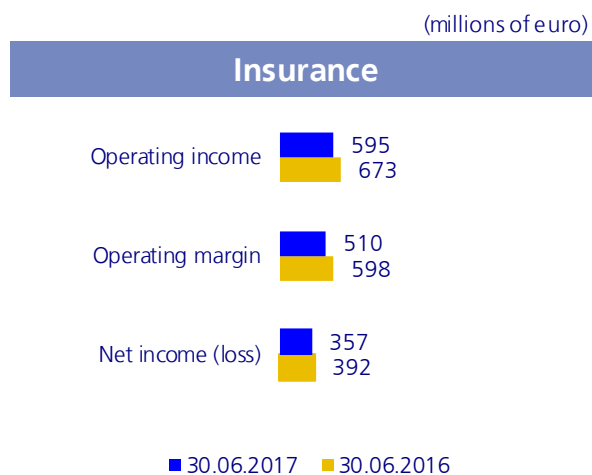
Operating income came to 369 million euro in the first half of 2017, up by 23.4% compared to the first half of 2016, mainly due to the positive performance of net fee and commission income, supported in particular by management fees related to the development of average assets under management.

Operating costs rose (+12.5%) due to personnel and administrative expenses, as a result of the change in the operational structures triggered by the increase in volumes under management.

As a result of the revenue and cost trends, the operating margin increased (+26.4% to 297 million euro).

The Division closed the first half of 2017 with net income of 235 million euro (+31.3%).

Overall, the total assets managed by the Division at the end of June 2017 came to 245 billion euro, showing growth (+2.6%, equal to +6.1 billion euro) compared to the end of 2016, mainly as a result of net inflows (+2.6 billion 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 2017, the Division reported income from insurance business of 599 million euro, showing a decline (-11.3%) compared to the first half of 2016, primarily due to the lower net investment result. In the presence of higher costs (approximately +13%), the operating margin fell to 510 million euro (-14.7%) and net income amounted to 357 million euro (-8.9%).

Direct deposits from insurance business, amounting to 147,975 million euro, increased by 3.7 billion euro (+2.5%) compared to the end of December 2016, essentially as a result of higher financial liabilities for the insurance segment designated at fair value.

## Highlights

### Acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca

Intesa Sanpaolo signed a contract, effective as of 26 June 2017, with the liquidators of Banca Popolare di Vicenza and Veneto Banca concerning the acquisition, for a token price of 1 euro, of certain assets and liabilities and certain legal relationships (hereinafter the Aggregate Set or segregated scope) of the two banks. The latter were placed into compulsory administrative liquidation on 25 June 2017, as envisaged by the Consolidated Law on Banking and Decree Law 99 of 25 June 2017 concerning "Urgent provisions for the compulsory administrative liquidation proceedings of Banca Popolare di Vicenza S.p.A. And Veneto Banca S.p.A." (Venetian Banks Decree).

Intesa Sanpaolo was awarded the contract through an open and transparent procedure involving six potential buyers. The outcome of the competitive procedure was announced on Wednesday, 21 June 2017. The process led to the submission of two binding bids. Intesa Sanpaolo's bid proved the better of the two in its ability to ensure business continuity and minimise the components left with the two banks in compulsory administrative liquidation. The intervention of Intesa Sanpaolo made it possible to avoid the serious social consequences that would have otherwise derived from the an "atomistic" compulsory administrative liquidation of the two banks. This intervention will safeguard jobs at the banks involved, the savings of around two million households, the activities of around 200,000 businesses financially supported and, therefore, the jobs of three million people in the areas which record the country's highest economic growth rate. Without the deal, the Interbank Deposit Guarantee Fund would have been required to provide an upfront outlay of over 10 billion euro, to be recovered from future liquidation proceeds. Given the lack of resources immediately available to the Interbank Deposit Guarantee Fund, the banking system would have had to cover a large part of the funds needed to reimburse deposit holders in an extremely short amount of time, and the State would have had to cover the immediate exercise of the guarantee on liabilities undertaken by the two banks for a total amount of approximately 8.6 billion euro. Intesa Sanpaolo acquired a segregated scope which excludes NPLs (bad loans, unlikely-to-pay loans and past due exposures), subordinated bonds issued, as well as shareholdings and other legal relationships that the Bank does not consider functional to the acquisition. The segregated scope of acquisition includes, in addition to the selected assets and liabilities of Banca Popolare di Vicenza and Veneto Banca (as well the international branches of the latter, located in Romania), and subject to approval of the related authorisations, the shareholdings in Banca Apulia S.p.A. (excluding the shareholdings held by the latter in Apulia Pronto Prestito S.p.A. and Apulia Previdenza S.p.A.), in Banca Nuova S.p.A., in SEC Servizi S.c.p.a., in Servizi Bancari S.c.p.a., and in the banks located in Moldova, Croatia, and Albania.

In addition, the segregated scope of acquisition includes high-risk performing loans of around 4 billion euro. However, Intesa Sanpaolo will have the right to give these back to the banks in compulsory administrative liquidation, should conditions occur, during the period up to the approval of the financial statement as at 31 December 2020, requiring that these loans be classified as bad loans or unlikely-to-pay loans. As already specified, the acquired segregated scope excludes the entire NPL portfolio (bad loans, unlikely-to-pay loans, and past due exposures) of the two banks in liquidation and of the shareholdings acquired by Intesa Sanpaolo.

The segregated scope does not include a corresponding equity component, given that the entire shareholders' equity of the two banking groups is scoped into the compulsory administrative liquidation procedure. The assets and liabilities transferred will be balanced by a loan backed by the government (to be repaid over 5 years at an interest rate of around 1%) granted by Intesa Sanpaolo to the banks in compulsory administrative liquidation. The amount of that loan, and of the loans that will be granted to the subsidiary banks for the transfer of bad loans, unlikely-to-pay loans, and past due exposures and of the shareholdings not functional to the transaction, was negotiated and set at a provisional amount of 5,351 million euro (based on the balance sheet of the operations as at 31 March 2017). If at the end of the due diligence process, as reported further on, the amount necessary to ensure that the transferred assets and liabilities balance exceeds the loan amount, the excess part will be backed by a state guarantee for an amount of up to 6,351 million euro.

The terms and conditions of the contract, in the framework set by the decree law and the ministerial decrees issued in relation to the transaction, ensure that the acquisition by Intesa Sanpaolo is fully neutral in terms of the Intesa Sanpaolo Group's Common Equity Tier 1 ratio and dividend policy. Specifically, they provide for:

- a public cash contribution, to offset the impact on the capital ratios. Its size will lead to a phased-in Common Equity Tier 1 ratio of 12.5% to the risk-weighted assets (RWA) acquired. This contribution, which amounts to 3.5 billion euro not subject to taxation, was recorded as income in the income statement, in accordance with the IAS 20 accounting standard, and was assigned to Intesa Sanpaolo on 26 June 2017;
- an additional public cash contribution to cover integration and rationalisation charges in relation to the acquisition. These charges include, in line with the commitments undertaken by Intesa Sanpaolo with the Directorate-General for Competition of the European Commission, those relating to the closure of around 600 branches and the use of the solidarity allowance mechanism in relation to the exit, on a voluntary basis, of around 3,900 people of the Group resulting from the acquisition. These charges also relate to other actions to be taken to safeguard jobs, such as redeploying and retraining people. Also this contribution, which amounts to 1.285 billion euro not subject to taxation, was recorded as income in the income statement, in accordance with the IAS 20 accounting standard, and was assigned on 26 June 2017. This amount was set aside in a specific fund, considering the tax effects related to its use, and is therefore neutral for the year's net income;
- public guarantees equal to 1.5 billion euro after tax, in order to sterilise risks, obligations and claims against Intesa Sanpaolo due to events occurring prior to the sale or relating to assets/liabilities or relationships not included among those transferred. In any case, the banks in compulsory administrative liquidation will be liable for damages that may derive from past disputes and from disputes relating to the rules regulating the purchase of own shares and/or investment services. This includes disputes brought by parties who participated/did not participate in, or were excluded from the so-called "Offers for Settlement" and from "Welfare Incentives";

Decree Law 99/2017 introduced specific tax rules governing the transfer to Intesa Sanpaolo of the assets and liabilities of Banca Popolare di Vicenza and Veneto Banca. The rules are substantially designed to ensure for the acquiring bank a limited "continuity" in the tax treatment of the subjective positions of the sellers (as regard tax credits from the conversion of DTAs, the tax value of the assets, liabilities, and rights included in the sets acquired, income components with deferred taxation, tax losses, and the guarantee fees for non-eligible DTAs), and the "neutrality" of transfers and public contributions, as a result of which they will not generate tax liabilities for the acquiring bank.

Specifically:

- tax and non-tax assets and liabilities are transferred to the acquiring bank at the tax value they had for the sellers (in practice, at the effective date of the transfer, the acquiring bank is assigned the same tax position held by the sellers);
- tax credits deriving from the conversion of DTAs are transferred to the acquiring bank;
- similarly, the tax losses of the sellers are transferred to the acquiring bank;
- the transfer of the assets and liabilities is not subject to VAT and subject to a fixed registration, mortgage and cadastral tax of 200 euro;
- the contributions paid to the acquiring bank by the Ministry for the Economy and Finance to offset the impact on the capital ratios and support corporate restructuring measures are non-taxable for IRES and IRAP purposes, whereas the expenses incurred by the acquiring bank for the aforementioned restructuring will be deductible for tax purposes.

As regards anti-trust authorisations, on 10 July 2017 the Italian Competition Authority announced its decision not to investigate the arrangement, thereby giving its clearance for the deal.

With reference to the banking authorisations required to acquire control over the shareholdings of Banca Popolare di Vicenza and Veneto Banca, the terms set to formulate the offer and execute the contract did not allow the parties to ask and obtain from the European Central Bank, within 30 June 2017, the necessary authorisations to transfer the control and Intesa Sanpaolo agreed to proceed with this transfer, on the assumption that it will have the possibility of returning the shareholdings whose transfer is not authorised and be completely indemnified from any and all negative effect as a consequence of the circumstance in which the transfer not previously authorised will be finalised. Furthermore, should these authorisations not be obtained or be obtained with imposition of conditions or charges for Intesa Sanpaolo, the latter will have the right to immediately return the shareholdings to the banks under compulsory administrative liquidation and with full indemnification of any negative effect deriving from Intesa Sanpaolo maintaining these shareholdings and returning them.

In addition, with reference to the voting rights in the subsidiary banks, Intesa Sanpaolo may not exercise its vote at meetings and intervene in their management and in the replacement of the corporate bodies until the authorisations are obtained, remaining at the same time fully indemnified from any ensuing negative effect or any effect in any case connected to their management as well as to the replacement (subject to possible removal) of the members of the management and control bodies of these banks. Therefore, when preparing these Half-yearly condensed consolidated financial statements, Intesa Sanpaolo did not carry out the line-by-line consolidation of the shareholdings in question but provisionally recorded them as shareholdings within the acquired segregated scope.

In order to determine the final imbalance of the operations and definitively calculate the amount of public contribution paid by the State, the Ministry for the Economy and Finance and Intesa Sanpaolo have jointly appointed a board of three independent experts, identified pursuant to the Venetian Banks Decree, which will conduct a specific due diligence leading to the generation of a detailed and analytic inventory of the captions comprising the final accounting position of assets and liabilities included within the acquired operations as at the execution date. As a result of the procedure to calculate the imbalance, the parties will ascertain the existence of any assets, liabilities or legal relationships not pertaining to the operations, with a consequent adjustment of the imbalance, and Intesa Sanpaolo will have the right to return assets, liabilities or legal relationships to the Banks in compulsory administrative liquidation, in accordance with the provisions of the Venetian Banks Decree, also in this case with consequent adjustment of the imbalance. In addition, any positive or negative difference between the final calculated amount of the public contribution and the initial amount granted will be settled by the State or Intesa Sanpaolo depending on the case. Within 5 days from the date on which the definitive amount of the imbalance of the operations is determined, Intesa Sanpaolo will release its loan to the banks in liquidation, which will be immediately and automatically offset by the receivable arising from the imbalance, without prejudice to the obligation of the banks in compulsory administrative liquidation (and, jointly, the guarantor) to reimburse the loan under the terms and conditions thereof.

Finally, the contract included a termination clause which established that the contract is ineffective and the assets/liabilities/legal relationships acquired can be given back to the banks in compulsory administrative liquidation. This referred, specifically, to the event that the Venetian Banks Decree was not converted into law or was converted with amendments/integrations that made the transaction more expensive for Intesa Sanpaolo, and was not fully enacted within the terms provided by law. In this regard, we report that the decree was passed without substantial amendments by both the Chamber of Deputies and the Senate.

### Other highlights for the first half of 2017

In January 2017, Intesa Sanpaolo launched a 1.25 billion euro Additional Tier 1 issue targeted at professional investors and international financial intermediaries, with characteristics in line with the CRD IV regulation. It is listed on the Luxembourg Stock Exchange as well as the usual Over-the-Counter market.

The Additional Tier 1 is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be early redeemed by the issuer after 10 years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 7.75% per annum, payable semi-annually in arrears every 11 January and 11 July of each year, with the first coupon payment on 11 July 2017. The compounded yield to maturity is 7.90% per annum, equivalent to the 5-year Mid Swap Rate in Euro reckoned at the moment of issuance plus a spread equal to 719.2 basis points. In the event that the early redemption rights are not utilised on 11 January 2027, a new coupon at fixed rate will be determined by adding the original spread to the 5-year Mid Swap Rate reckoned at the reset date. Such new annual coupon will be fixed for the following 5 years (until the next reset date). As envisaged in the regulations applicable to Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The trigger of 5.125% of Common Equity Tier 1 (CET1) provides that, if the CET1 ratio of the Intesa Sanpaolo Group or Intesa Sanpaolo S.p.A. falls below such trigger, the nominal value of AT1 will be temporarily reduced for the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.

Also in January, based on the ranking created by Corporate Knights, a Canadian magazine specialising in sustainable capitalism, Intesa Sanpaolo was ranked among the top 20 most sustainable companies in the world and the only Italian banking group in the classification, thanks to the implementation and further development of the best strategies for managing risks and opportunities in the environmental, social and governance areas. This recognition is the result of Intesa Sanpaolo's now consolidated commitment in the field of sustainability, which obtained further significant confirmation with the share's inclusion in the leading sustainability indices, including the Dow Jones Sustainability Indices (World and Europe), the CDP A-List and the FTSE4Good (Global and Europe).

As regards the stake in the Bank of Italy's share capital, in 2017 further stakes equal to a total of approximately 5.38% of the capital of the Bank of Italy were sold - at nominal value, coinciding with the carrying value - for a price of approximately 404 million euro. Following the completion of the transaction, the Group's stake in the Bank of Italy's share capital decreased to 27.46%.

On 7 March 2017, the Intesa Sanpaolo Group announced that it signed an agreement in respect of the sale of its entire stake in Allfunds Bank, for a cash consideration of 900 million euro. The finalisation of the transaction is expected by the end of the year and is subject to the customary regulatory authorisations being received.

Allfunds Bank is a multimanager distribution platform for asset management products targeted to institutional investors and is 50%-held by Eurizon Capital SGR (in turn, 100%-owned by Intesa Sanpaolo) and 50% by AFB SAM Holding (Santander Group). In the consolidated financial statements of the Intesa Sanpaolo Group the investment was considered a joint venture pursuant to IFRS 11 and was consolidated at equity (IAS 28).

Considering the above-mentioned disposal transaction, the investment in Allfunds Bank was reclassified under discontinued operations starting from the Interim Statement as at 31 March 2017.

For some time Intesa Sanpaolo has held an investment of 15.33% in the capital of the Chinese Bank of Qingdao (BQD). This was Intesa Sanpaolo's first investment on the Chinese market (2007), and was followed by additional investments in asset management through Eurizon Capital, which owns 49% of Penghua Fund Management, and the establishment in 2016 of its own operating company in wealth management, Qingdao Yicai Wealth Management Co. Ltd. (Yi-Tsai), whose shareholders are the parent company, Fideuram – Intesa Sanpaolo Private Banking and Eurizon Capital.

Intesa Sanpaolo has strongly contributed to developing the Chinese bank's business through a Framework Agreement and a Co-operation Agreement concerning reciprocal consulting and coordination on matters pertaining to appointments of managers, transactions on capital and/or extraordinary transactions, strategic plans and limits to investments by Intesa Sanpaolo in other Chinese commercial banks, while granting an exclusive as foreign banking investor in the capital of BQD. Cooperation has also been developed through direct appointment by Intesa Sanpaolo of several top managers of the bank.

In 2015 the Chinese bank began the process for listing on the Hong Kong stock exchange, which was completed with the IPO reserved for new shareholders, carried out in December 2015.

Following the listing and the dilution of Intesa Sanpaolo's equity interest, Intesa Sanpaolo and BQD were compelled to significantly revise the previous Co-operation Agreements and align them with the limits permitted by local laws on listed companies. In March the two banks signed a new Co-operation Agreement which, different to the previous one, which had set out precise commitments for the counterparties, exclusively envisages a type of commercial co-operation, without binding obligations of the parties, mainly between BQD and the recently established newco set up by Intesa Sanpaolo (Yi-Tsai). The managers appointed by Intesa Sanpaolo, in the meantime, were also re-assigned to other positions as part of the Group's business relating to the Chinese market.

As a result of this changed relationship between Intesa Sanpaolo and BQD, the investment, which was previously classified under investments subject to significant influence, was reclassified to financial instruments available for sale, as the requirements of IAS 28 to classify the investment under associates ceased to exist. As a result of that reclassification, the investment was designated at fair value (equal to the stock exchange price) at the time of the reclassification, resulting in the recognition of a positive effect on the income statement of 131 million euro gross (128 million euro net of taxes), to which the release of reserves for foreign

exchange differences accrued since the start of the investment (equal to 58 million euro) and AFS reserves for 1 million euro must be added.

In 2008 Intesa Sanpaolo invested in the Nuovo Trasporto Viaggiatori (NTV), acquiring an initial stake of 20%, which was later raised, through the subscription of new rights issues, to 24.46%, for a total amount of 92 million euro. NTV was established in December 2006 as an alternative rail transport provider to Trenitalia, offering services on the country's high-speed rail network. The economic and financial difficulties faced by the company in its first few years of business led, over the years, to the need to write down the investment in the consolidated financial statements of Intesa Sanpaolo. As at 31 March 2017, the investment was carried at equity for a value of approximately 13 million euro and was classified as an investment subject to significant influence in accordance with IAS 28.

On 29 June 2017, Intesa Sanpaolo sold a 4.74% stake in NTV to the Luxembourg fund Peninsula Investments II S.C.A. for approximately 24 million euro. The disposal generated a net gain of approximately 21 million euro. More recently, thanks to its positive business performance, NTV had the opportunity to optimise its capital structure through the refinancing of its debt, most of which was held with the Intesa Sanpaolo Group. The refinancing initiative primarily involved the placement of a 550 million-euro bond, which enabled NTV to close its finance lease exposure with the Group, thereby reducing the share of NTV debt held by the Intesa Sanpaolo Group significantly from 86% to 21%.

Following the disposal of the 4.74% stake in NTV, which reduced the stake currently held by Intesa Sanpaolo in NTV to 19.72%, and the new structure of the company's financial exposure, the investment was reclassified to financial instruments available for sale (AFS), given that the conditions envisaged by IAS 28 for the classification of the investment as subject to significant influence no longer held. The original NTV shareholder's agreement initially signed by the shareholders, under which Intesa Sanpaolo enjoyed veto rights, expired in 2013 and has since not been renewed. As required by IAS/IFRS, the remaining equity investment in NTV was remeasured at its fair value upon reclassification (corresponding to the pro-rata share held of the comprehensive value of the company as at the date the stake was sold), which resulted in the recognition of an additional gain of 87 million, net of tax, in the income statement. Overall, the partial disposal of the stake in NTV and the reclassification of the remaining equity investment to the AFS portfolio had a positive impact of 108 million euro, net of tax, on the consolidated income statement of Intesa Sanpaolo.

Intesa Sanpaolo holds 19.89% of the Atlante Fund, a closed-end alternative investment fund managed by the asset management company (SGR) Quaestio Capital Management. The purpose of the fund is to invest in banks with capital ratios lower than the minimums set by the SREP which, thus, on request by the Supervisory Authorities, carry out capital strengthening measures through capital increases and enhancement of Non-Performing Loans (NPL), mainly by subscribing junior tranches and possibly mezzanine tranches of securitisations of said NPL. The Atlante Fund has collected commitments totalling 4.249 billion euro, 845 million euro of which refers to Intesa Sanpaolo.

In 2016, the Atlante Fund called up a total of approximately 2.5 billion euro to subscribe the capital increases of Banca Popolare di Vicenza (99.33%) and Veneto Banca (97.44%), for a total of 1.5 billion euro and 0.9 billion euro respectively. Intesa Sanpaolo contributed for a total of approximately 503 million euro. On 19 December 2016, Quaestio made an additional request for payment from subscribers of a total of 915 million euro, of which 182 million euro from Intesa Sanpaolo, which made a payment on 3 January 2017. The amount was called up by the asset management company to help strengthen the capital ratios of the two banks through capital payments for future capital increases totalling 310 million euro for Banca Popolare di Vicenza and 628 million for Veneto Banca. Following this additional payment, 81.2% of the initial resources of the Fund had been called up. Therefore, as at 31 March 2017, Intesa Sanpaolo paid in a total of 686 million euro and had a commitment for an additional 159 million euro.

For valuation purposes, as the Fund is classified under investments available for sale (AFS), it must be designated at fair value. In the 2016 Financial Statements, based on the information published by the asset management company, the value of the investment was adjusted by 227 million euro overall to take account of the value of the two Venetian banks arising from the appraisal by the independent expert appointed by the asset management company. In the second quarter of 2017, the Atlante Fund made a fifth and sixth call, raising 280 million euro, of which 56 million euro provided by Intesa Sanpaolo, to fund the investment operations of the Atlante II Fund (see below). Including the payments made in the second quarter of 2017, a total of 87.76% of the original commitments subscribed by the investors have been called up. As at 30 June 2017, Intesa Sanpaolo had paid in a total of 742 million euro and had a residual commitment to the Atlante Fund of 103 million euro.

With regard to the Venetian Banks, on 25 June 2017 the Ministry for the Economy and Finance initiated the compulsory administrative liquidation proceedings for the two banks, as contemplated by the Consolidated Law on Banking, following the issue by the President of the Italian Republic of Decree Law 99 of 25 June 2017 concerning "Urgent provisions for the compulsory administrative liquidation proceedings of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A.". At the same time, Intesa Sanpaolo signed a contract with the liquidators concerning the acquisition, for a token price of 1 euro, of certain assets and liabilities belonging to the two banks. The placement of Banca Popolare di Vicenza and Veneto Banca in liquidation effectively voided the claims held by the Atlante Fund on the banks' capital. On 20 July 2017, the Atlante Fund announced that with the cancellation of the value of the Venetian bank investments, the unit value of its units was 78,100.986 euro, determined exclusively by the investment in the Atlante II Fund (plus a residual cash component). The valuations made by the expert appraiser engaged by the asset management company, including recent investments made by the Atlante II Fund, estimate the current value of the units held by Atlante to be in line with the subscription price. As a result, the fair value as at 30 June 2017 of the stake held by Intesa Sanpaolo in the Atlante Fund was approximately 66 million euro (including the investment in the Atlante II Fund and the residual cash component), and an impairment loss of 449 million euro (301 million euro net of tax) was recognised in the income statement for the first half of 2017. Considering the 227 million-euro impairment loss posted in the income statement for 2016, the Atlante Fund has generated a comprehensive charge of 676 million euro for Intesa Sanpaolo, equal to 91% of the total amount paid in to date. Finally, with the publication of the NAV of the Fund as at 30 June 2017, Quaestio Capital Management SGR announced that it was assessing the opportunity of liquidating the Atlante Fund, an option which will be analysed and discussed with the representatives of the investors.

In July 2016, the asset management company Quaestio Capital Management launched another closed-end alternative investment fund named "Atlante II", reserved exclusively for professional investors for the purpose of investing in NPL transactions made by Italian banks. The Atlante Fund subscribed a total commitment in the Atlante II Fund of 800 million euro, for a share of 37.1%. Intesa Sanpaolo has also directly invested in the Atlante II Fund, with a commitment to pay 155 million euro (7.19% of the Fund). Also considering the share indirectly held through the Atlante Fund, Intesa Sanpaolo holds a total of 14.6% of Atlante II. In the first half of 2017, the Atlante II Fund called up a total of 757 million euro. Intesa Sanpaolo paid in its share of 55 million euro. The resources called up by the Fund were used to fund "Project Cube" investments, involving the purchase of senior and mezzanine notes deriving from the securitisation of approximately 2.2 billion euro, before tax, of NPLs originated by Nuova Banche Marche S.p.A., Nuova Banca dell'Etruria S.p.A., and Nuova Cassa di Risparmio di Chieti S.p.A., "Project Este", and a 343 million euro investment in a portfolio of NPLs originated by Nuova Cassa di Risparmio di Ferrara S.p.A. Assessments made by the expert appraiser engaged by the asset management company, which took into account the expected cash flows from the securitisation notes subscribed by Atlante II and the recent issue of the notes, estimated the current value of the assets held by Atlante II to be in line with the subscription price. As a result, the fair value as at 30 June 2017 of the stake held by Intesa Sanpaolo in the Atlante II Fund amounted to approximately 55 million euro. The Bank's residual commitment towards the Fund at the same date amounted to 99 million euro.

In May, Intesa Sanpaolo launched a 750 million euro Additional Tier 1 issue targeted at international markets, with characteristics in line with the CRD IV regulation. It is and listed on the Luxembourg Stock Exchange as well as the usual Over-the-Counter market.

The Additional Tier 1 is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be early redeemed by the issuer after 7 years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears every 16 May and 16 November of each year, with the first coupon payment on 16 November 2017. The compounded yield to maturity is 6.348% per annum, equivalent to the 7-year Mid Swap Rate in Euro reckoned at the moment of issuance plus a spread equal to 585.6 basis points. In the event that the early redemption rights are not utilised on 16 May 2024, a new coupon at fixed rate will be determined by adding the original spread to the 5-year Mid Swap Rate reckoned at the reset date. Such new annual coupon will be fixed for the following 5 years (until the next reset date). As envisaged in the regulations applicable to Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The trigger of 5.125% of Common Equity Tier 1 (CET1) provides that, if the CET1 ratio of the Intesa Sanpaolo Group or Intesa Sanpaolo S.p.A. falls below such trigger, the nominal value of AT1 will be temporarily reduced for the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.

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## **The 2014-2017 Business Plan**

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With the Business Plan approved in March 2014, the Intesa Sanpaolo Group has introduced the 2014-2017 objective to pursue a 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) New Growth Bank**

The Banca 5@ Project (development of Base customers) has led to the creation of a commercial organisation involving 3,600 people. Its objective is to increase the profitability of around 5 million Base customers by promoting 5 "key" products with them. Thanks to this major commercial initiative, revenues per customer of Base customers increased from 70 euro to 126 euro per year. Other initiatives pursued in the first half included campaigns to promote key products (in particular, mortgage loans for young people, payment cards, and basic investment products), training for managers to improve their advisory skills, the planning and launch of "Customer Journey" campaigns (supported by the launch of the "New Digital Experience"), and activities to promote the use of integrated multichannel banking.

The Multichannel Bank Project involves the integration of physical and remote banking channels. It aims, on the one hand, to give customers greater flexibility and autonomy in managing their relationships with the Bank, and, on the other, to enable managers to focus on a more personalised and specialist offer of services.

In the first half of the year, efforts were focused on the fine-tuning and enhancement of the mobile app (Android and IOS), the expanded integration of the On-line Branch with the physical network, the release of Digital Identity tools (MyKey and Okey Smart), digitisation initiatives, and the remote promotion of insurance and asset management products.

A new Guest Area was set up on the Intesa Sanpaolo website as a pilot initiative for personal loans to prospective customers, in an effort to facilitate the development of new customer relationships.

The acquisition of 100% control of Banca ITB, finalised in December 2016, falls within the strategy of developing multichannel banking and the Banca 5@ model, as it enables:

- the leveraging of the existing network of over 22,000 accredited points of sale to expand cross-selling to Group customers and acquire new customers (tapping into a potential customer base of some 25 million customers, of which 12 million are already customers of Banca ITB's partner points of sale);
- the creation of a "proximity bank", focused on instant banking, which is complementary and with a lighter cost structure versus the existing branch network, which is increasingly specialised in advisory and high value-added services.

The Plan envisages the development of new professional areas tied to the core banking business (including real estate brokerage and e-commerce), in an effort to create new sources of fee and commission income and seize opportunities for cross-selling.

On the real estate front, Intesa Sanpaolo Casa is now fully operational. The company operates through a network of 32 physical agencies located in 11 cities, including a branch dedicated to institutional clients located in Milan, an on-line agency, and specialist partners (Habitissimo, Cocontest, and CasaClima), offering customers services that range from brokerage, interior design and renovation to check-up and planning services for energy redevelopment measures. Intesa Sanpaolo Casa is committed to the continuous innovation and improvement of customer experience, which recently led, for example, to the launch of a new tool enabling virtual visits of properties on sale.

During the half-year, over 700 customers were acquired and around 1,100 sale mandates were collected, with approximately 480 agreements completed/in course of completion.

To expand the reach of the network, partnership agreements have been entered into with other real estate agencies.

As regards e-commerce, the "Destination Gusto" website was launched, an Intesa Sanpaolo portal designed to create new market opportunities for products of excellence in the wine and food sector.

February instead saw the launch of "Destination Italia" a tourism sector start-up in which Intesa Sanpaolo is an investor, and whose mission is to promote Italian tourist offerings on mostly international retail and wholesale markets. A B2B range of offers is already operational for business customers, while work is underway on a B2C platform, targeted at individual consumers.

Another project is the SME Finance Hub, which aims to integrate the specialist business finance skills of Mediocredito Italiano into Banca dei Territori operations. During the first half of the year, efforts continued to focus on organisational adjustments and the development of the products needed to maximise the commercial effectiveness of the Company. In terms of organisation, initiatives revolved around the centralisation of various governance functions at the Parent Company.

Commercial operations instead involved the development of supply chains within the Confirming project; the kick-off of an International Confirming project (involving the C&IB, BdT, and International Subsidiary Banks Divisions); the hiring of resources with specific expertise in the Advisory and Structured Finance teams; and the launch of Nova+ for Industry 4.0.

An initiative involving the entire Banca dei Territori network is the "Insieme per la Crescita" (Together for Growth) programme. The idea is to target commercial behaviour through a stronger focus on relationships, thereby increasing the network's performance and customer satisfaction.

Having identified the elements of behaviour that are essential to building a solid relationship with customers, a series of initiatives were launched to spread a consistent business culture, involving a targeted in-house communication campaign and support measures directly at Group branches. A new version of the "Barometer" was released, aimed at encouraging Group colleagues to share their experiences of work at branches, while "Vividigitale" events, designed to help customers discover new multichannel banking opportunities, were expanded.

The Global Transaction Banking project assigns to a single product company the strategic coordination of Group activities in the field of transactions, with a view to supporting business growth through product innovation, excellence in commercial support, and a pro-active development of partnerships.

In the first half of the year, the Global Transaction Banking Department was reorganised on the basis of the expertise it has consolidated, and a standardisation plan was introduced for the Transaction Banking units at International Subsidiary Banks. On the commercial front, various initiatives were launched, focused on the enhancement of the company's information assets, the development of new products, the digitisation of services, the completion of the specialist training programme, the implementation of the new specialist model in Italy and abroad, the start-up of the first 6 GTB desks to support major International Branches/Hubs, and the introduction of a public relations plan involving the bank's participation in events at world level.

Efforts to expand the range of products and services offered by Banca IMI focused on three main areas: asset-backed trading in the commodities market for Corporate customers, the launch of new risk-hedging products and, lastly, the offering of products and services usually reserved to professional investors to Ultra High Net Worth Individuals (UHNWI), which is now operational as a result of the secondment of Banca IMI specialists to Intesa Sanpaolo Private Banking.

Key activities carried out in the first half of the year also included: i) the development of products for trading on natural gas (in particular, the creation of price-indexed contracts); ii) the physical delivery of futures on the Netherlands' Ice Endex market; iii) the start of trading on the MGAS platform run by the Energy Markets Operator; and iv) the provision of assistance, as financial advisor, to Intesa Sanpaolo's Capital Light Bank, in the project called "Beyond the Clouds" for the sale of around 2 billion euro of NPLs.

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 commercial offering and geographical coverage.

The companies operating in Private Banking (Banca Fideuram, Intesa Sanpaolo Private Banking, Sirefid and Intesa Sanpaolo Private Bank Suisse) were aggregated into a single hub, which aims to strengthen leadership in Italy and consolidate the Group's status as a big player in Europe thanks to the continuous evolution of the product range, the service model and the technological instruments supporting advisory activities.

The distribution network was expanded in the first half of the year with the opening of new branches and Hub Centres dedicated to loans to HNWI. The new digital advisory platform "Alfabeto" saw a total of 4,200 advisors and 46,000 customers with medium-high financial expertise accredited. Fideuram reviewed its branch model, with the automation of low-service content processes. New investment products were launched (including PIR-compliant funds) and the range offered by the London branch was expanded. Finally, cooperation was launched with Intesa Sanpaolo Casa, and efforts continued for the development of advanced advisory services for private banking customers (SEI for the Fideuram network and VIEW for the Intesa Sanpaolo Private Banking network).

The Asset Management Division has set itself three main objectives: ensuring the excellence of the support to the Group networks through the prompt creation of products that are always in line with the market situation, becoming a centre of reference for institutional customers and promoting extra-captive distribution on the domestic as well as international markets.

The Division took steps in several areas during the first half of the year. Work for the Banca dei Territori, Private Banking and Insurance Divisions has materialised in the development of the offer, in improving the quality of after-sales support and in contributing to sales networks' training programmes on the basis of specific requirements of the individual structures. Improvement of the product catalogue as well as the strengthening of the sales action on institutional customers and extra-captive customers continued. As regards the international expansion of the business, Eurizon branches were opened in Paris and Frankfurt, new institutional customers were acquired in Europe and Latin America, asset management activities were started up in Hong Kong, and a wealth management company was set up in Qingdao, China.

The Insurance Division worked on organisational initiatives to improve coordination among Group entities engaged in the insurance business, while on the commercial front, efforts focused on promoting capital-efficient life policies (Class III and multi-line products) and on expanding non-life business. The growth objectives of this latter business will be supported by Big Data solutions (Information Driven Business), multichannel services, the introduction of professionals specialised in the sale of non-life products, the expansion of the offer targeted at SMEs, and by building on synergies with the Banca 5@ project.

#### *b) Core Growth Bank*

The Banca dei Territori Division continues to work on the development of three projects aimed at optimising the service model: Full Potential (Retail), Investment House (Personal), and Business-Entrepreneur (Enterprises).

As regards the "Full Potential" project, work continued on the rationalisation measures for the network and the transformation of the branch layout.

The "Investment House" project instead focused on the expansion of the range of products and services and the training of the personnel dedicated to the Out-of-Branch offering.

As part of the "Business-Entrepreneur" project, to enhance services to support the international expansion of businesses a new specialist team was set up, which also works in partnership with select external partners. The services were advertised through the organisation of on-site visits to customers and meetings at business branches, and participation in thematic events.

Intesa Sanpaolo Forvalue launched the offer of non-financial services, while Skill4Business training products continued to be promoted.

A total of 455 new companies joined the "Sviluppo Filiere" programme, taking the overall number of participating businesses over 8,000, for a total of 366 supply chains launched for commercial development. Finally, the "Dialogo Industriale" (Industrial Dialogue) project was successfully launched as a pilot initiative aimed at boosting the relationship with the business community through tools designed to better understand and steer its financial and non-financial needs.

The "Commercial Excellence" project aims to improve service quality for high-value customers by basing work with customers on personalised interviews, the use of flexible and integrated (multichannel) contact systems, and the adoption of advanced technologies to extend the automated management of commercial processes.

In the first half of the year, efforts continued for the automation of operations of low-service content, the fine-tuning of mortgage loan procedures and applications, and the digitisation of payments to public administration entities.

Service improvement projects for the various customer segments are supported by the new organisational model of the Banca dei Territori Division: in all of the regional governance centres, three specialised "commercial areas" have been identified – Retail, Personal and Business – to maximise the specific skills of personnel.

Within the framework of the Asset Light project, the Corporate & Investment Banking Division aims to develop an "originate-to-distribute" model to improve the Division's capital ratios and further strengthen engagement with institutional investors.

Following the introduction of organisational changes to the Corporate & Investment Banking Division, aimed at maximising Corporate customer relationship management synergies with Banca IMI as regards the development of international business, the emphasis is now on the redesign and relaunch of the project aimed at "increasing business with international customers".

Focused on the selective growth of the Italian Corporate sector, the aim of the project is to adopt a suitable strategy for expanding business with customers selected on the basis of their growth prospects and their asset and financial stability. In the first half of the year, new commercial campaigns were launched to broaden the customer base, increase loan penetration, and develop funding synergies with Intesa Sanpaolo Private Banking.

Efforts also continued in terms of commercial development targeted at Financial Institutions customers, with the objective of consolidating the Group's position in certain segments and product areas already covered (Italian Banks and Trade Finance) and improve its penetration in the International Banks, Asset Management, Insurance, Investment Banking, and Transaction Banking segments.

The International Subsidiary Banks Division is engaged in a vast programme of reviewing the operational model that envisages strengthening governance, optimising the monitoring processes and support for extending best practices, and harmonising the service model, commercial offering and IT systems. As regards the reorganisation of the Division, all the main project streams (Nexus, International Subsidiary Banks loans programme, Covenant project, the IFRS 9 and BFD projects, Cooperation, and Constellation) are continuing according to the established plans. Commercial strategy continued to focus on the extension and adaptation of the Parent Company's service model to the individual International Subsidiary Banks.

The Proactive Loan Management project envisages the application of a new work method which, thanks to on the ongoing monitoring of customer positions, the prompt identification of situations at risk, and the immediate activation of measures to keep or reposition customers in performing status, has contributed to stemming the deterioration of credit quality.

During the first half of the year, also owing to these loan management programmes, more than 10,600 businesses returned their loans to performing status from non-performing status (approximately 63,000 since 2014), a success that confirms Intesa Sanpaolo's intention to be a bank that supports the real economy and which is always committed to seeking sustainable growth.

In accordance with ECB instructions, in 2016 Intesa Sanpaolo initiated measures to keep the stock of NPLs in check. In March 2017, a three-year NPL Plan was approved with the aim of bringing the overall aggregate of NPLs and relative ratios back down to pre-crisis levels. The plan takes a holistic approach by tackling all categories of NPLs and involves all business owners in the Group. The plan activates all the levers that can help achieve its stated objectives, while also providing suitable mechanisms for the coordination of efforts and the monitoring of outcomes delivered.

The Business Plan envisaged a gradual simplification in the corporate make-up of the Banca dei Territori Division. The objective is to achieve a significant reduction in the number of legal entities, from 17 banks at the end of 2013 to just 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 (taking legal effect on 16 May 2016). The Casse di Risparmio dell'Umbria banks were incorporated into Intesa Sanpaolo on 21 November 2016. Finally, it should be noted that the rationalisation of the local presence led to the closure of 67 branches since the start of the year (for a total of 794 closures since 2014).

#### *c) Capital Light Bank*

The Business Plan identifies a clear strategy for optimising capital and liquidity, while deleveraging non-core Group assets through the Capital Light Bank Division.

Compared to the start of the year, the stock of assets contributed with the launch of the 2014–2017 Business Plan was reduced by approximately 3.7 billion euro, bringing total deleveraging since 2014 to approximately 20.8 billion euro. In Ukraine, the Josephine project for sale of a package of NPLs for approximately 11 million euro before tax was completed in the first half of the year. At the same time, the organisational structure was rationalised, reducing the work force by around 300 people. In Hungary, as part of the Bad Bank programme, phase 1 of the Lara Project saw the sale of a package of retail NPLs for approximately 107 million euro before tax. At the same time, the continuation of the ordinary collection/sale of individual positions led to a total deleveraging of around 420 million euro since the start of the year. In the first six months of the year, the business activity of Intesa Sanpaolo REOCO, the Group company which has the mission of extracting the most value from repossessed properties and safeguarding the Bank's assets, generated a total benefit for the Group of approximately 7 million euro. The ordinary business of Provis, instead, led to total deleveraging of around 290 million euro since the start of the year. Other initiatives saw the conclusion of the consumer credit rationalisation project through the merger by incorporation of Accedo into Intesa Sanpaolo. Finally, activities continued for the sale of non-strategic investments, with the full sale of the equity interest held in B.I.A.T.

#### *d) People and investments as key enablers*

The objective of reskilling 4,500 people and reallocating them to high priority initiatives in the Group was achieved in 2016, more than a year ahead of the deadline set by the Business Plan. This enabled the Bank to maintain the employment levels, helping to strengthen the sense of belonging to the company while preserving the know-how and professional expertise within the Group.

The Chief Innovation Officer Governance Area has fully consolidated its expertise in the promotion and acceleration of innovation. It works constantly with the business divisions to steer its work, guaranteeing the optimisation of innovation investments and the identification of concrete solutions that can be applied to the benefit of customers.

With regard to investments as enablers, the project initiatives that showed the greatest developments in the first half are briefly described in the following chapter, with particular reference to projects with cross-cutting impacts across the Group.

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## Projects

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Also during the first half of 2017, in coordination with Intesa Sanpaolo Group Services (ISGS) – the consortium company 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 those 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 aim of the Group's multi-channel strategy is to redefine "customer experience" and offer customers the possibility of choosing which channel to use to interact with the bank, making them simple, immediate and interconnected. The main objectives of the Integrated Multichannel Platform are:

- the redefinition of the role of the channels, distinguishing between "assisted" channels (Branches and Contact Units) and self-service channels (home banking, tablet, mobile and ATMs);
- the enabling of a multi-channel approach, in line with customers' preferences, on selected priority products;
- the exploitation of contact points with customers and data available to the Bank to trigger and take advantage of new commercial opportunities and monitor customer satisfaction.

In the first half of the year a new process was released for the sale of personal loans to new customers through the showcase website, as was the new Salvadanaio (Moneybox) service, available through the branch and Internet Banking channels. Analyses continued for the introduction of the on-line sale of current accounts, and work was started on the extension of the multichannel offering to under-age customers. The release of the new Digital Identity (My Key) service was also completed across the Group, and is available for subscription in branches or through Internet Banking. Digitisation was extended to insurance policies in the Motor, Protection & Accident, Non-life, and Elementary Risk Class segments, for which remote promotion was also activated.

In the second quarter, analyses were begun to extend multichannel processes to the Banca dei Territori Division's Business segment.

#### *Digitisation of Group Core Processes*

The digitisation of the Core Processes was launched through the "Digital Factory" in 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 "core" processes. 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 experienced 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.

In the first half of 2017, work on the Business & Corporate Proactive Lending and Specialist International lending processes was concluded, while activities relating to 7 other processes continued. Two additional processes were also started up (Authorisations and Collation). The Non-Performing Loans programme was launched in May, with work started on the redesign of tools and processes for the Business segment, organised into four phases, which will be progressively activated over the three-year period 2017–2019. Phase 1 was activated with the objective of redesigning and creating new tools for the management and processing of non-performing positions in the Business segment, the analysis and assessment of intervention strategies, and the integration of the demand and decision stage.

#### *Big Financial Data / Big Data Engine*

The operational phase of the project was 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, which is organised over two years in waves (to be concluded by the end of 2018), has so far achieved the following objectives:

- the consolidation of the data governance framework through the creation of new Data Owner roles and the set-up of a new Data Office to oversee it;
- the creation of a "data lake", a single repository for all Group data with over 150,000 pieces of information now uploaded and ready for use by the Bank;
- implementation of data quality tools (3,500 checks activated for Wave 1, around 28,000 for Wave 2, and around 12,000 for Wave 3);
- definition 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 performance indicators (~1,000 KPIs) and Group reports (~100) for around 1,700 users, and issue of the data and control "Dictionary";
- creation and expansion of a "Big Data Lab" to support advanced analytics activities;
- launch of the "Big Data Academy", a Group training centre focused on data management, big data, and advanced analytics;
- start-up of pilot activities focused on use cases of interest to the Bank's users.

Big Data Factory activities have continued in 2017 (involving inter-departmental teams working in a co-location environment on a Digital Factory model), and are now being focused more closely on priority business chains and on using data entered to date to feed them.

In the first half-year, a specific Big Data Engine programme was launched with the aim of coordinating and building synergies between BFD and the various projects started up in business chains (e.g. Anacredit). The objective is to achieve a shared target architecture design through a structured project aimed at tapping into key interdepartmental engines used by the business chains and at redesigning specific engines to feed data directly from Big (Financial) Data.

At the same time, data entry activities continued for the data lake, involving successive releases on the basis of the priorities expressed by the business chains.

#### *IFRS 9*

At the end of 2015, the Intesa Sanpaolo Group initiated a project for the implementation of IFRS 9 *Financial Instruments*, the new international accounting standard that will replace the current IAS 39. As reported in detail in the 2016 Financial Statements, the introduction of IFRS 9 will impact the methods of classification and measurement of financial instruments and the calculation logics and methods of value adjustments. Given the pervasive impacts of IFRS 9, both on business and under an organisational, application and reporting point of view, the project is aimed at understanding the various areas of influence of the Standard – grouped under "Classification & Measurement", "Impairment", and "Hedge Accounting"; determining its impact in qualitative and quantitative terms, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of the subsidiaries of which it is composed.

In the CFO and CRO Areas, and under the joint responsibility of the Administration and Tax Department, Credit Risk Management Department and Financial and Market Risks Department, and, with the active involvement of numerous Group Departments, themed working groups were formed on the basis of the areas into which the Standard is divided.

In order to ensure the operational implementation of the standard in a manner that is consistent with international best practices and as faithful as possible to the substantive meaning of the provisions of IFRS 9 (also on the basis of indications from international authorities, where relevant), a specific working table was created to aid the themed working groups in analysing and steering the decisions based on which the implementation activities will be organised.

In addition to the involvement of the operating divisions in the analysis of the impacts of the Standard on the business areas, to develop the changes to IT systems it was necessary to create a Coordination Table with the other projects currently in progress, so as to design consistent IT solutions capable of building potential synergies.

For each of the three areas (C&M, Impairment, and Hedge Accounting), the same methodological approach set out in the following (three) macro phases of activity has been used: analysis and preliminary choices, IT simulations and design of the target operating model, IT development, and identification of the operating processes.

#### *Classification and Measurement*

To be able to comply with the requirements of IFRS 9 – which introduces a model through which the classification of financial assets is guided, on one hand, by the contractual cash flow characteristics of the instruments and, on the other hand, by the business model within which they are held - methods were identified for testing the contractual cash flow characteristics (SPPI test), while the identification of prospective business models is now in the final stage.

For the SPPI testing of financial assets, the method to be used has been established and, at the same time, an analysis of the composition of the existing securities and loans portfolios has been performed to identify the correct classification upon First Time Adoption (FTA) of the new Standard.

With regard to debt securities, a detailed examination has been conducted on the cash flow characteristics of the instruments classified at amortised cost and in the Financial assets available for sale category according to IAS 39, in order to identify the assets which do not pass the SPPI test and must therefore be measured at fair value through profit or loss according to IFRS 9. The analyses conducted on the scope specified above confirmed the outcomes reported in the 2016 Financial Statements, namely

that only a non-material percentage of debt securities out of the overall Group portfolio do not pass the SPPI test, mainly instruments that create concentrations of credit risk (tranches) and structured securities. Furthermore, based on analyses conducted and recent interpretations provided by IFRS Interpretation Committee, investment funds (open funds and closed-end funds) are to be measured on a mandatory basis at their fair value through profit or loss, leading to a future increase in the volatility of the income statement for these instruments, currently classified as Financial assets available for sale.

For the loans segment, the project has carried out modular analyses that take account of the significance of the portfolios, of their homogeneity and of the business division. The analyses used different approaches for the retail loan and corporate loan portfolios. As a result, only marginal cases were found which, due to their specific clauses, would fail an SPPI test. Accordingly, no significant impacts are expected also for the loans segment.

With regard to the second classification driver for the financial assets (business model), the analysis and survey of the current business models was completed and the identification of prospective business models is now in the final stage. For the definition of the hold to collect portfolios, the limits have been set for frequent sales to be considered eligible, but not significant (individually or in aggregate), or infrequent even if their amount is significant. Based on the analyses conducted, the securities portfolios currently classified at amortised cost generally have little movement, consistent with the management strategy of a hold to collect business model. With regard to the debt securities currently classified as Financial assets available for sale, a hold to collect and sell business model is expected to be adopted for most of portfolios, with transfers currently being envisaged for a limited number of cases, for portfolios with marginal amounts.

In general terms, the current procedures for managing loans, both with retail and corporate counterparties, are consistent with the hold to collect business model; however, the identification of the classification category will be confirmed based on the management procedures for the financial instruments upon first time adoption of IFRS 9.

Assessments are underway of equity investments, aimed at determining whether to exercise the option of classifying the equity instruments at Fair value through other comprehensive income (FVTOCI without recycling through profit or loss). Verifications are also underway regarding the possible accounting choices offered by the standard for the classification of financial liabilities designated at fair value through profit or loss (with separate recognition through other comprehensive income of the fair value changes attributable to the changes in the Bank's credit rating).

### *Impairment*

For the Impairment area (for which specific project streams have been developed for both lending and securities operations), key information was provided in the 2016 Financial Statements. Now that further progress has been made, the following information can be provided:

- the methods have been established for the tracking of the credit quality of the portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income;
- the parameters for determining the significant deterioration of credit risk have been defined, for the correct allocation of performing exposures to stage 1 or stage 2. With regard to impaired exposures, on the other hand, the alignment of the definitions of accounting and regulatory default – already currently present – means that the current criteria for the classification of exposures as “non-performing”/“impaired” can be considered the same as the future classification criteria for exposures within stage 3.
- the models are being finalised – which include the forward-looking information – for the staging (with regard to the use of the lifetime PD as the relative indicator of impairment) and for the calculation of the expected credit losses (ECL) at one year (to be applied to exposures in stage 1) and lifetime (to be applied to exposures in stage 2 and stage 3). To take into account forward-looking information and the macro-economic scenarios in which the Group may have to operate, it was decided to adopt, as reported in greater detail below, the so-called “most likely scenario+Add-on” approach.

With regard to the tracking of credit quality, to identify the significant deterioration of the risk of the exposures, in line with the regulatory content of the standard and the guidelines from the Supervisory Authorities regarding the methods for applying the reporting standard for larger sized banks, a specific review of the credit quality of each individual relationship (both in the form of securitised exposure and the form of loans) has been conducted – within specific project streams and as a policy choice to be applied uniformly to all the types of exposures after IFRS 9 enters into force – in order to identify any “significant deterioration” and, vice versa, the conditions for returning to stage 1 from stage 2. In other words, this operational choice involves, case-by-case and at each reporting date, the comparison – for the purposes of staging – between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase. Solely for the first-time adoption of the standard only, for certain categories of exposures (specifically identified), the low credit risk exemption established by IFRS 9 will be used. Based on the exemption, exposures which, at the date of transition to the new standard, have a credit rating equivalent to “investment grade” or above will be considered to have a low credit risk and therefore in stage 1.

Also with regard to the above, the factors that will constitute the main drivers to be taken into consideration for the assessments regarding the “transfers” between the different stages are the following:

- the variation of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of any other conditions (e.g. a renegotiation with the characteristics for classification under forbearance measures), which – again on a presumption basis – result in the classification as an exposure whose credit risk has “significantly increased” since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank will be considered for the purposes of the transfer between “stages” and where appropriate.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales after initial purchase (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the “first-in-first-out” or “FIFO” method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management

of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Lastly, the inclusion of forward-looking factors, and macroeconomic scenarios in particular, is a crucial element for the estimates of the expected losses. In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach, which, for the calculation of the expected credit losses (ECL) and the “stage assignment”, involves considering the credit losses generated by the base scenario believed to be most likely and used also for other purposes within the Group (for example, for the preparation of the budget and business plan), plus an add-on adjustment aimed at reflecting the effects from the non-linear nature of the variable used for determining the macroeconomic parameters.

Finally, specific considerations apply to “stage 3” exposures (consisting, as reported above, of the current scope of non-performing assets). While no impact from the adoption of IFRS 9 is forecast in relation to the “classification” of non-performing exposures, analyses conducted in the first half of the year found that the need to include forward-looking factors in the assessment of scenarios will have, also for those types of assets, an impact in terms of “measurement”. IFRS 9-compliant metrics for determining the recoverable amount of non-performing exposures, which require the express consideration of the weighted probability of various future scenarios occurring, are therefore different to those used under IAS 39.

#### *Hedge accounting*

In the area of Hedge Accounting, the changes to the Standard relate solely to general hedging and are closely tied to the Group's choice to exercise the opt-in/opt-out (i.e. the possibility of applying the new IFRS 9 rather than maintaining the old IAS 39). Based on the investigations conducted on the current management of hedging transactions, it has been decided to exercise the opt-out option upon FTA of IFRS 9. As a result, hedging operations will continue to be managed in accordance with the provisions of IAS 39 (carve-out), currently in force. The Group will consider whether or not to confirm this choice for the reporting periods after 2018.

#### *Financial and capital impacts*

The Intesa Sanpaolo Group expects the main impacts from the adoption of the new standard to come from the application of the new impairment accounting model (based - as indicated above - on “expected loss” rather than on “incurred loss”, as is currently the case under IAS 39), which will determine an increase in impairment losses, and from the application of new rules for transferring exposures among the classification stages established by the new standard.

On the basis of analyses conducted and implementation activities underway, it is estimated that the impact, to be recognised in shareholders' equity upon first-time adoption of the new standard, will not be critical for the Group's current levels of balance-sheet and regulatory capital. The final impact will depend on the composition of the loan portfolios at the date of transition and the macroeconomic forecasts for future years that will be defined at the date of transition to IFRS 9, in addition to elements that have not been fully identified, regarding the definition of several regulatory and application interpretations currently still being debated at national and international level.

#### *Impact on the IT systems*

The smooth and effective implementation of the changes introduced by IFRS 9 regarding Classification and Management and, above all, Impairment, requires measures that have a big impact in the area of information technology. To that end, analyses have been conducted to identify the main areas of impact and the target application architectures to be developed have been outlined. The applications and procedures to be adapted (and, where necessary, purchased) have also been identified, as well as the amendments to be made.

The measures being implemented on the systems – which are designed to achieve compliance with the new requirements established by the standard in terms of classification of the portfolios, tracking and measurement of credit risk, accounting and disclosure – therefore involve both the implementation, within the existing procedures, of the features required for that purpose, and the addition of new software applications required for the more efficient and effective management of the issues concerned.

More specifically, for the Classification and Measurement area, once the methods for conducting the SPPI Test have been defined, the applications and procedures to be purchased and/or adjusted/supplemented for its implementation have been identified, both for securities and for credit exposures in the strict sense. For the Impairment area, after having made the main choices regarding the parameters to be considered for the assessment of significant deterioration, as well as for the calculation methods for the ECL (also taking into account forward-looking information), the risk management applications to be used for tracking the credit risk of the individual exposures and calculating the ECL have been identified, together with the necessary adaptations and upgrades, which are currently being developed. Similar analyses and measures are also underway for the adaptation of the accounting applications, also in order to ensure suitable disclosure, as required by the new version of the FINREP, among others.

In general, these measures have been defined and developed centrally in Intesa Sanpaolo for all the Group companies that have IT systems that are shared with or are the same as those of the Parent Company. However, these measures are managed independently by the subsidiaries (for example, the international subsidiaries and insurance companies) that have different application systems, also due to the specific nature of their business, with oversight by the Parent Company, to ensure that the solutions are aligned to guidelines issued by it.

#### *Organisational impacts*

The IT Implementations are being accompanied by similar analyses and measures of an organisational nature. Specifically, the main organisational impacts relate to the revision and adaptation of existing operating processes, the design and implementation of new processes and the revision of the available resources and expansion of the competencies available within the various operational and administrative and control departments.

Specifically, the work related to the Classification and Measurement area will initially involve business and marketing departments, with the aim of identifying and defining business models and developing management and monitoring procedures for the process of performing the SPPI test.

With regard to Impairment, the Group's objective is the increasingly effective and integrated implementation of the procedures for ongoing monitoring of credit risk, in line with the requirements of IFRS 9, in order to establish preventive measures, aimed at monitoring the potential “sliding” of positions into stage 2 and recording fair and timely impairment adjustments based on the real credit risk.

Lastly, the introduction of IFRS 9 will presumably also have impacts in terms of the commercial offer (and, consequently, as already partly already noted, in terms of revision of the product catalogue). Work on the identification and setting of the scope of possible mitigation actions, initiated in 2016, continued in 2017 (with, among other things, change management activities planned). That said, the main impacts that may be envisaged for the Intesa Sanpaolo Group's banking business deriving from the combination of the different subject areas of the new standard include:

- the likely need/opportunity – at least for some portfolios – to re-examine the current credit strategies;
- the amendment of some catalogue products (potentially including both their pricing and duration, based on their supporting guarantees, and their repayment mechanisms);
- the possible restatement of the mission of certain operating units, with the resulting implications for the governance of portfolios, control methods, risk/measurement parameters and the related limits and ceilings. Consequently, the models and incentive schemes may also be subject to revision, in some cases.

The Intesa Sanpaolo Group will implement the parallel running of the application of the new standard from the second half of 2017, involving a modular approach that will progressively be rendered complete as information and support applications become available.

#### *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 and structures needed to mitigate the risk induced by cyber attacks. A number of key activities were finalised in the first half: progressive implementation was begun of the ISBC Integrated Control Model across the Group, as presented also to the Risks Committee and the Management Control Committee; the guidelines for upgrading the methodology adopted for IT risk analysis were identified and shared; the EBA's RTS technological standards for the regulation of PSD2 electronic payment services were analysed; the Brand Monitoring service was activated; the Internet Banking security infrastructure was consolidated to improve the protection of exposed business services provided by the Bank and to enable the introduction of advanced new authentication features (Smart Authentication, OTP software, Cardless withdrawals, and Push notifications); privileged access management (PAM) was set up and introduced for privileged accounts management and their proliferation over company IT systems, in order to ensure greater protection of assets and meet legal requirements; top managers were assessed through a web survey as part of the VIP Checkup awareness project; and the operating model of the new Global Security Operation Center (Global SOC) was set up, with a pilot phase activated for Intesa Sanpaolo (provider/consumer) and VUB Banka (provider).

#### *New Group Register*

The project stems from the need to guarantee an ever greater alignment with the directives on credit risk management, 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, its aims are to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single infrastructure for the management of customers available with innovative features, actionable in the various companies of the Group, and to enable the unification of the view on a single customer in relation to all the existing contact channels. Following the installation of the new register platform, the identification of the target operating model, and the setting of corrections and migration strategies, project activities shifted their focus to the testing of the new platform, operating plans for the start-up of pilot companies, regulatory compliance, and training. The first engagements were also made of the legal entities that will migrate to the new platform after the pilot companies.

#### *Processes Integrated Governance*

The project begun in 2016, with the aim of redefining the processes tree from an end-to-end perspective, the management model in terms of integration with the risks and related controls, a new classification of risks and controls, as well as simplifying the current body of regulations. The initiative also aims to define a method and implement a tool for measuring the performance of the processes, using three indicators (effectiveness, efficiency and quality) to which specific performance indicators are connected for each process being measured.

In the first half of 2017, the final version was consolidated of the new processes tree, which will be used for the next migration, which will take place in July, of Intesa Sanpaolo, Banca IMI, Mediocredito Italiano and Fideuram/ISPB. The Insurance and Asset Management Divisions will migrate to the new processes tree by the end of the year. The review plan of the entire regulations framework is currently under implementation. The first 83 end-to-end processes have been reviewed and released, and the new risk classification has been outlined and shared with all control functions.

#### *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. In the first half of 2017, the groundwork was laid to prepare for FULL FACTA reporting and CRS reporting (modifications to applications, preparation and certification of data flows, and analyses of the reportable scope). The Parent Company submitted its first FULL FACTA report as at 31 May, in accordance with the legal deadline. The first CRS report was submitted on 31 July.

#### *G20 Reforms Project*

The G20 Reforms project is intended to guarantee the adaptation of the operating model for the Group in order to respond to the regulatory obligations arising from the reforms undertaken by the G20 with regard to investments in financial instruments. As regards EMIR, activities under the related project continued with the development of the target application model for managing confirmations from international branches and the sharing and consolidation of controls. The migration of the reporting system onto the FCHUB architecture was completed in the second quarter. Efforts are now being focused on analysing the impact

of the inclusion of Forex trading in the scope and business requirements have been identified for the interventions needed in relation to reporting changes introduced by new RTS/ITS.

In relation to the new variation margin exchange requirements, procedures are now being consolidated to request the exemption of the Group's Italian companies. The gathering of counterparty information was completed in view of new clearing obligations to be introduced in 2017, while IT developments are in progress, based on the requirements expressed by users.

In relation to the Dodd Frank Act, work was completed for the management of policy and procedure integration requests received from the NFA. Analyses are also being conducted for the identification of the target Pre-Trade Reconstruction process.

In relation to the Volcker Rule, the documentary framework was completed and will soon be published. Implementation activities for the introduction of automatic monitoring for non-performing positions in trading-book funds and structured products were completed. Market Making activities saw work concluded for the inclusion of the FX Cash desk in the monitoring scope, while work is continuing on the expansion of the calculation scope for quantitative metrics. With regard to Totus, the fine-tuning of the monitoring system based on the use of DFA Form fields is in progress.

As regards the Reporting stream of the SFTR project, a gap analysis was performed on the reporting requirements for other regulations in force. The Group entities impacted by the reporting requirements have been identified, as well as the Group entities managed by DSI. The framework was set for the treatment of intragroup transactions and reporting guidelines were forwarded to entities not included into the project scope but which perform SFT transactions. Reporting requirements are now being preliminarily analysed in terms of products and systems and the possible synergies with other regulatory reports produced.

#### *The Basel 2/3 Project: Adoption and implementation of Internal Rating Based (IRB) models*

This project is part of the broader process to obtain Supervisory Authority approval for the internal systems used to calculate the capital requirement for credit risk. In the first half of 2017, support was provided for the completion of the Remediation Plan for the obligations and conditions related to the Institutions, Banking Book Equity, and Corporate Model Change application, and for the preparation of the new Retail Model application. Contributions were provided to both the Italian Network and the International Network, as well as to the International Subsidiary Banks, where envisaged in the roll-out plan prepared by the Credit Risk Management Head Office Department.

#### *Anacredit*

EU Regulation 2016/867, issued by the ECB on 18 May 2017, introduces a new collection of credit and credit risk data, known as Anacredit, which requires national central banks to collect harmonised and extremely granular information on loans and guarantees referring, at an initial stage, to counterparties identified as legal entities.

The regulatory provisions fall within the European System of Central Banks (ESCB) project and are designed to satisfy the data needs of the ECB in relation to "monetary policy analysis and operations, risk and collateral management, financial stability, economic research and statistics".

To ensure a framework for the new reporting requirement, a specific project was formally started up in March 2017 and fully included within the ECB regulatory requirements programme. The new requirement represents a major opportunity for the Group to enhance the target IT architectural model for the entire credit risk area, enabling it to perform reporting and management, strategic and innovation roles, and be potentially relieved of predefined updating restraints. The framework will be able to gradually satisfy requirements concerning the presentation and measurement of the loan portfolio and key credit variables, as well as the needs of control functions, improving, as a result, the overall consistency of data and building key "implementation" and data quality synergies.

The first dataset, for the domestic scope, is to be prepared and sent to the Bank of Italy as at 30 June 2018. In the second quarter of the year, work was initiated for the analysis and design of a target solution.

#### *IDD (Insurance Distribution Directive)*

In March 2017, a compliance project was started up with regard to Directive 97/2016/EU on insurance distribution, which Member States are to transpose into their legal systems by the end of February 2018. Governance documents and process guidelines have been prepared in relation to insurance product governance and the development of the offering process.

#### *New Trade Finance Engine project*

Intesa Sanpaolo has activated a series of initiatives designed to position the Bank as a market leader in trade finance. One of those initiatives is the New Trade Finance Engine project, which was formally launched in April 2017. Its objective is to create a new product and process framework enabling the strengthening of the commercial offer and the improved monitoring of product processes.

The adoption of the new Trade Finance Engine will enable the abovementioned objectives to be achieved through the integration of the various interfaces used into one application. The project's road map envisages a number of releases focused on products, the review of the work flows involved in processing applications for each product released, and the concurrent fine-tuning of the service model. In accordance with the road map, in the first half of 2017 the project team started work on the analysis and production of business requirements for the first product.

#### *Minotauro project*

The Minotauro project is designed to help the Bank seize new business opportunities in the Personal segment of the Banca dei Territori Division and expand the customer base, thus increasing assets under administration.

The initiative, which was activated in the second quarter of 2017 with the launch of various project areas, envisages the introduction of an innovative "mixed" employment framework for both permanent part-time employees and contractors for Out-of-Branch financial advisory work, available both to people outside the Group and current managers at the Banca dei Territori Division.

*Intesa Sanpaolo Casa, Intesa Sanpaolo ForValue, and Intesa Sanpaolo Reoco Purchasing Cycle Management project*

The objective of the project is to extend the Parent Company's target Purchasing Cycle model to the non-financial companies Intesa Sanpaolo Reoco, Intesa Sanpaolo ForValue, and Intesa Sanpaolo Casa. The target model requires that the companies adopt the relevant processes and applications in use at the Parent Company, specifically the support applications SAP R3 and the Supplier Portal.

During the half-year, the three companies were assessed in order to identify their specific business characteristics and consolidate the reference model. In June, the impacts arising from the assessment stage were studied, while the gaps identified were assessed, and estimates were made of the interventions required on the applications. The start-up of the implementation stage was then shared, with a view to activating the model in the companies on 1 January 2018.





Half-yearly condensed  
consolidated Financial  
statements





**Consolidated  
financial statements**

## Consolidated balance sheet

Assets	30.06.2017	31.12.2016	(millions of euro)	
			CHANGES amount	%
10. Cash and cash equivalents	6,446	8,686	-2,240	-25.8
20. Financial assets held for trading	44,415	43,613	802	1.8
30. Financial assets designated at fair value through profit and loss	70,018	63,865	6,153	9.6
40. Financial assets available for sale	144,562	146,692	-2,130	-1.5
50. Investments held to maturity	2,305	1,241	1,064	85.7
60. Due from banks	78,147	53,146	25,001	47.0
70. Loans to customers	393,517	364,713	28,804	7.9
80. Hedging derivatives	5,209	6,234	-1,025	-16.4
90. Fair value change of financial assets in hedged portfolios (+/-)	-213	321	-534	
100. Investments in associates and companies subject to joint control	1,282	1,278	4	0.3
110. Technical insurance reserves reassured with third parties	16	17	-1	-5.9
120. Property and equipment	5,012	4,908	104	2.1
130. Intangible assets	7,413	7,393	20	0.3
<i>of which</i>				
- <i>goodwill</i>	4,059	4,059	-	-
140. Tax assets	15,951	14,444	1,507	10.4
<i>a) current</i>	3,656	3,313	343	10.4
<i>b) deferred</i>	12,295	11,131	1,164	10.5
- <i>of which convertible into tax credit (Law no. 214/2011)</i>	8,608	8,491	117	1.4
150. Non-current assets held for sale and discontinued operations	427	312	115	36.9
160. Other assets	13,511	8,237	5,274	64.0
<b>Total Assets</b>	<b>788,018</b>	<b>725,100</b>	<b>62,918</b>	<b>8.7</b>

## Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity	30.06.2017	31.12.2016	CHANGES	
			amount	%
10. Due to banks	101,450	72,641	28,809	39.7
20. Due to customers	304,518	291,876	12,642	4.3
30. Securities issued	101,499	94,783	6,716	7.1
40. Financial liabilities held for trading	42,517	44,790	-2,273	-5.1
50. Financial liabilities designated at fair value through profit and loss	63,017	57,187	5,830	10.2
60. Hedging derivatives	8,254	9,028	-774	-8.6
70. Fair value change of financial liabilities in hedged portfolios (+/-)	596	773	-177	-22.9
80. Tax liabilities	1,972	2,038	-66	-3.2
<i>a) current</i>	348	497	-149	-30.0
<i>b) deferred</i>	1,624	1,541	83	5.4
90. Liabilities associated with non-current assets held for sale and discontinued operations	268	272	-4	-1.5
100. Other liabilities	20,236	11,944	8,292	69.4
110. Employee termination indemnities	1,445	1,403	42	3.0
120. Allowances for risks and charges	5,132	3,427	1,705	49.8
<i>a) post employment benefits</i>	961	1,025	-64	-6.2
<i>b) other allowances</i>	4,171	2,402	1,769	73.6
130. Technical reserves	83,593	85,619	-2,026	-2.4
140. Valuation reserves	-1,838	-1,854	-16	-0.9
150. Redeemable shares	-	-	-	-
160. Equity instruments	4,102	2,117	1,985	93.8
170. Reserves	10,986	9,528	1,458	15.3
180. Share premium reserve	26,006	27,349	-1,343	-4.9
190. Share capital	8,732	8,732	-	-
200. Treasury shares (-)	-62	-72	-10	-13.9
210. Minority interests (+/-)	357	408	-51	-12.5
220. Net income (loss)	5,238	3,111	2,127	68.4
<b>Total Liabilities and Shareholders' Equity</b>	<b>788,018</b>	<b>725,100</b>	<b>62,918</b>	<b>8.7</b>

## Consolidated income statement

(millions of euro)

	1st half of 2017	1st half of 2016	CHANGES	
			amount	%
10. Interest and similar income	6,165	6,542	-377	-5.8
20. Interest and similar expense	-1,886	-2,187	-301	-13.8
<b>30. Interest margin</b>	<b>4,279</b>	<b>4,355</b>	<b>-76</b>	<b>-1.7</b>
40. Fee and commission income	4,496	4,059	437	10.8
50. Fee and commission expense	-976	-817	159	19.5
<b>60. Net fee and commission income</b>	<b>3,520</b>	<b>3,242</b>	<b>278</b>	<b>8.6</b>
70. Dividend and similar income	183	326	-143	-43.9
80. Profits (Losses) on trading	231	251	-20	-8.0
90. Fair value adjustments in hedge accounting	-3	-64	-61	-95.3
100. Profits (Losses) on disposal or repurchase of	435	711	-276	-38.8
<i>a) loans</i>	-19	-1	18	
<i>b) financial assets available for sale</i>	479	701	-222	-31.7
<i>c) investments held to maturity</i>	1	-	1	
<i>d) financial liabilities</i>	-26	11	-37	
110. Profits (Losses) on financial assets and liabilities designated at fair value	556	435	121	27.8
<b>120. Net interest and other banking income</b>	<b>9,201</b>	<b>9,256</b>	<b>-55</b>	<b>-0.6</b>
130. Net losses / recoveries on impairment	-1,583	-1,359	224	16.5
<i>a) loans</i>	-1,091	-1,317	-226	-17.2
<i>b) financial assets available for sale</i>	-462	-90	372	
<i>c) investments held to maturity</i>	-	-	-	
<i>d) other financial activities</i>	-30	48	-78	
<b>140. Net income from banking activities</b>	<b>7,618</b>	<b>7,897</b>	<b>-279</b>	<b>-3.5</b>
150. Net insurance premiums	3,254	5,142	-1,888	-36.7
160. Other net insurance income (expense)	-4,267	-6,088	-1,821	-29.9
<b>170. Net income from banking and insurance activities</b>	<b>6,605</b>	<b>6,951</b>	<b>-346</b>	<b>-5.0</b>
180. Administrative expenses	-4,477	-4,470	7	0.2
<i>a) personnel expenses</i>	-2,686	-2,682	4	0.1
<i>b) other administrative expenses</i>	-1,791	-1,788	3	0.2
190. Net provisions for risks and charges	-1,951	-113	1,838	
200. Net adjustments to / recoveries on property and equipment	-166	-169	-3	-1.8
210. Net adjustments to / recoveries on intangible assets	-236	-272	-36	-13.2
220. Other operating expenses (income)	5,162	340	4,822	
<b>230. Operating expenses</b>	<b>-1,668</b>	<b>-4,684</b>	<b>-3,016</b>	<b>-64.4</b>
240. Profits (Losses) on investments in associates and companies subject to joint control	329	107	222	
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	6	9	-3	-33.3
<b>280. Income (Loss) before tax from continuing operations</b>	<b>5,272</b>	<b>2,383</b>	<b>2,889</b>	
290. Taxes on income from continuing operations	-21	-678	-657	-96.9
<b>300. Income (Loss) after tax from continuing operations</b>	<b>5,251</b>	<b>1,705</b>	<b>3,546</b>	
310. Income (Loss) after tax from discontinued operations	-	105	-105	
<b>320. Net income (loss)</b>	<b>5,251</b>	<b>1,810</b>	<b>3,441</b>	
330. Minority interests	-13	-103	-90	-87.4
<b>340. Parent Company's net income (loss)</b>	<b>5,238</b>	<b>1,707</b>	<b>3,531</b>	
<b>Basic EPS - Euro</b>	<b>0.31</b>	<b>0.10</b>		
<b>Diluted EPS - Euro</b>	<b>0.31</b>	<b>0.10</b>		

## Statement of consolidated comprehensive income

	(millions of euro)			
	1st half of 2017	1st half of 2016	Changes amount	%
<b>10. NET INCOME (LOSS)</b>	<b>5,251</b>	<b>1,810</b>	<b>3,441</b>	
<b>Other comprehensive income (net of tax) that may not be reclassified to the income statement</b>	<b>78</b>	<b>-372</b>	<b>450</b>	
20. Property and equipment	-	-	-	
30. Intangible assets	-	-	-	
40. Defined benefit plans	78	-372	450	
50. Non-current assets held for sale	-	-	-	
60. Share of valuation reserves connected with investments carried at equity	-	-	-	
<b>Other comprehensive income (net of tax) that may be reclassified to the income statement</b>	<b>-64</b>	<b>-509</b>	<b>-445</b>	<b>-87.4</b>
70. Hedges of foreign investments	-	-	-	
80. Foreign exchange differences	17	-45	62	
90. Cash flow hedges	161	-222	383	
100. Financial assets available for sale	-155	-216	-61	-28.2
110. Non-current assets held for sale	-	-	-	
120. Share of valuation reserves connected with investments carried at equity	-87	-26	61	
<b>130. Total other comprehensive income (net of tax)</b>	<b>14</b>	<b>-881</b>	<b>895</b>	
<b>140. TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 + 130)</b>	<b>5,265</b>	<b>929</b>	<b>4,336</b>	
<b>150. Total consolidated comprehensive income pertaining to minority interests</b>	<b>12</b>	<b>64</b>	<b>-52</b>	<b>-81.3</b>
<b>160. Total consolidated comprehensive income pertaining to the Parent Company</b>	<b>5,253</b>	<b>865</b>	<b>4,388</b>	

## Changes in consolidated shareholders' equity as at 30 June 2017

(millions of euro)

	30.06.2017											
	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							
<b>AMOUNTS AS AT 1.1.2017</b>	8,621	485	27,375	8,947	578	-1,930	2,117	-74	3,200	49,319	48,911	408
<b>ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR <sup>(a)</sup></b>												
Reserves				1,538					-1,538	-	-	-
Dividends and other allocations									-1,662	-1,662	-1,656	-6
<b>CHANGES IN THE PERIOD</b>												
Changes in reserves										-	-	-
Operations on shareholders' equity												
Issue of new shares								10		10	10	-
Purchase of treasury shares										-	-	-
Extraordinary dividends			-1,343							-1,343	-1,343	-
Changes in equity instruments							1,985			1,985	1,985	-
Derivatives on treasury shares										-	-	-
Stock options										-	-	-
Changes in equity investments										-	-	-
Other	-95			42						-53	3	-56
<b>Total comprehensive income for the period</b>						14			5,251	5,265	5,254	11
<b>SHAREHOLDERS' EQUITY AS AT 30.06.2017</b>	8,526	485	26,032	10,527	578	-1,916	4,102	-64	5,251	53,521	53,164	357
- Group	8,247	485	26,006	10,408	578	-1,838	4,102	-62	5,238	53,164		
- minority interests	279	-	26	119	-	-78	-	-2	13	357		

<sup>(a)</sup> 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 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							
<b>AMOUNTS AS AT 1.1.2016</b>	8,804	485	27,521	8,544	578	-950	877	-72	2,806	48,593	47,776	817
<b>ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR <sup>(a)</sup></b>												
Reserves				366					-366	-	-	-
Dividends and other allocations									-2,440	-2,440	-2,371	-69
<b>CHANGES IN THE PERIOD</b>												
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 investments	7			-7						-	-	-
Other	-68		-106	13						-161	5	-166
<b>Total comprehensive income for the period</b>						-881			1,810	929	865	64
<b>SHAREHOLDERS' EQUITY AS AT 30.06.2016</b>	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		

<sup>(a)</sup> 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)

	30.06.2017	30.06.2016
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash flow from operations</b>	<b>7,725</b>	<b>4,200</b>
- net income (loss) (+/-)	5,251	1,810
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-904	-415
- gains/losses on hedging activities (-/+)	3	64
- net losses/recoveries on impairment (+/-)	1,828	1,668
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	402	441
- net provisions for risks and charges and other costs/revenues (+/-)	2,026	194
- net insurance premiums to be collected (-)	-3	4
- other insurance revenues/charges to be collected (-/+)	-444	1,777
- taxes, duties and tax credits to be paid/collected(+/-)	-295	160
- net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
- other adjustments (+/-)	-139	-1,503
<b>2. Cash flow from / used in financial assets</b>	<b>-63,875</b>	<b>-43,374</b>
- financial assets held for trading	-515	-720
- financial assets designated at fair value through profit and loss	-5,223	-4,414
- financial assets available for sale	2,046	-20,514
- due from banks: repayable on demand	20,959	-9,386
- due from banks: other	-45,948	6,952
- loans to customers	-30,135	-12,814
- other assets	-5,059	-2,478
<b>3. Cash flow from / used in financial liabilities</b>	<b>57,080</b>	<b>38,947</b>
- due to banks: repayable on demand	938	8
- due to banks: other	27,881	8,597
- due to customers	12,641	16,447
- securities issued	6,690	-2,212
- financial liabilities held for trading	-2,329	5,887
- financial liabilities designated at fair value through profit and loss	5,456	4,902
- other liabilities	5,803	5,318
<b>Net cash flow from (used in) operating activities</b>	<b>930</b>	<b>-227</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flow from</b>	<b>226</b>	<b>193</b>
- sales of investments in associates and companies subject to joint control	226	53
- dividends collected on investments in associates and companies subject to joint control	-	-
- sales/reimbursements of investments held to maturity	-	140
- sales of property and equipment	-	-
- sales of intangible assets	-	-
- sales of subsidiaries and business branches	-	-
<b>2. Cash flow used in</b>	<b>-2,341</b>	<b>-289</b>
- purchases of investments in associates and companies subject to joint control	-763	-
- purchases of investments held to maturity	-1,064	-
- purchases of property and equipment	-258	-82
- purchases of intangible assets	-256	-207
- purchases of subsidiaries and business branches	-	-
<b>Net cash flow from (used in) investing activities</b>	<b>-2,115</b>	<b>-96</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares	10	11
- share capital increases	1,927	1,241
- dividend distribution and other	-3,005	-2,440
<b>Net cash flow from (used in) financing activities</b>	<b>-1,068</b>	<b>-1,188</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-2,253</b>	<b>-1,511</b>
<b>RECONCILIATION</b>		
<b>Captions</b>		
Cash and cash equivalents at beginning of period	8,686	9,344
Net increase (decrease) in cash and cash equivalents	-2,253	-1,511
Cash and cash equivalents: foreign exchange effect	13	-9
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>6,446</b>	<b>7,824</b>

LEGEND: (+) from (-) used in



## **Explanatory notes**



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# Accounting policies

## General preparation principles

The Half-yearly condensed consolidated financial statements as at 30 June 2017 have been prepared in compliance with the requirements of art. 154-ter of Legislative Decree 58 of 24 February 1998. Moreover, they have been prepared in compliance with the 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 2017, 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 2017, including related SIC and IFRIC interpretation documents.

The accounting principles adopted in 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 2016, to which reference should be made for further details.

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 2016 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 consolidated Balance sheet, the consolidated Income statement, the Statement of consolidated comprehensive income for the period, the Changes in consolidated shareholders' equity, the consolidated Statement of cash flows and the Explanatory notes. They are also complemented by information on significant events which occurred in the period, on the main risks and uncertainties to be faced in the remaining months of the year, as well as information on significant related party transactions.

The amounts indicated in the financial statements and Explanatory notes are expressed in millions of euro, unless otherwise specified.

In addition to the amounts for the reporting period, the financial statements also indicate the corresponding comparison figures for the first half of 2016 in the income statement and at 31 December 2016 for the balance sheet.

The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the Half-yearly Report as at 30 June 2016 and in the Annual Report as at 31 December 2016, together with specific reconciliations between these and the reclassified statements, included in the Report on operations.

With reference to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, as part of the measures with which the two banks were placed in compulsory administrative liquidation, considering the information – from many perspectives – already provided in the appropriate sections of this Half-yearly condensed consolidated financial statements, some notes are provided in this chapter concerning the accounting methods for the abovementioned operation adopted as at 30 June 2017. As known, the agreement includes the sale to Intesa Sanpaolo of a segregated scope deriving from the two banks in compulsory administrative liquidation, which excludes NPLs (bad loans, unlikely-to-pay loans and past due exposures), subordinated bonds issued, as well as shareholdings and other legal relationships that the Bank does not consider functional to the acquisition. The scope also includes, subject to approval of the related authorisations by the Supervisory Authority, the shareholdings of Banca Popolare di Vicenza in Banca Nuova S.p.A. and of Veneto Banca in Banca Apulia S.p.A., Veneto Banka d.d. (Croatia), Veneto Banka sh.a. (Albania) and Eximbank s.a. (Moldova), as well as the shareholding of the two banks in SEC Servizi S.c.p.a and Servizi Bancari S.c.p.a.

The sale contract and the Decree Law setting forth "Urgent provisions for the compulsory administrative liquidation proceedings of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A." assign the full ownership of the assets and liabilities sold to Intesa Sanpaolo, with effect from 26 June 2017, postponing to a subsequent specific due diligence phase the actual definition of the accounting scope. As a consequence, pursuant to the international financial reporting standard applicable to acquisition of business combinations, IFRS 3, Intesa Sanpaolo has already recorded in these Half-yearly condensed consolidated financial statements the legal relationships identified at a preliminary stage based on the accounting results as at 30 June 2017 of the banks currently in liquidation, recognising the value of the assets and liabilities acquired as provisional. The particular contractual agreements concerning the need to transfer "balanced" operations (net assets equal to zero) require the use of a "balancing" item in the form of a loan (recognised in "Other assets" for an amount of 4,285 million euro as at 30 June 2017) to the banks in compulsory administrative liquidation which, in these Half-yearly condensed consolidated financial statements, necessarily has a provisional nature as it will be defined precisely only after the due diligence process. Upon completing this process, the abovementioned imbalance will be offset by a loan of equal amount granted by Intesa Sanpaolo to the banks in liquidation and backed by the government up to a maximum amount of 6,351 million euro.

In addition, with reference to the provisions of IFRS 3 whereby the assets and liabilities subject to acquisition must be recognised in the financial statements of the acquirer at the respective fair values at the purchase date, the same standard grants 12 months for the final measurement of fair value.

As also underlined below, from the joint analysis of the legal framework, the assessment of the clauses of the acquisition contract and considering the provisions of the international accounting standards – as at 30 June 2017 and thus for the purpose of these Half-yearly condensed consolidated financial statements – the existence of “control” on the shareholdings held by Banca Popolare di Vicenza and Veneto Banca included in the segregated scope envisaged by the sale contract was excluded.

The recognition as at 30 June 2017 of the balances of assets and liabilities pertaining to the banks in compulsory administrative liquidation implied the methodological choice of neglecting the economic result attributable to the operations in the period from 26 June 2017, the day the transaction was effective, to 30 June 2017, since it is deemed immaterial compared to the amounts represented in these Half-yearly condensed consolidated financial statements.

The consolidated balance sheet as at 30 June 2017 includes the assets and liabilities of Banca Popolare di Vicenza and Veneto Banca according to the above indications. The values referring to the segregated scope acquired are separately indicated in the reclassified balance sheet and in the related tables included in the Report on operations, as well as in the reconciliation statements included among the attachments.

In addition, note that, as previously stated, the terms and conditions of the contract to acquire the assets and liabilities, within the framework set by the decree law and the ministerial decrees issued in relation to the transaction, ensure that the acquisition by Intesa Sanpaolo is fully neutral in terms of the Intesa Sanpaolo Group’s Common Equity Tier 1 ratio and dividend policy. Specifically, they provide for:

- a public cash contribution, to offset the impact on the capital ratios. Its size will lead to a phased-in Common Equity Tier 1 ratio of 12.5% to the risk-weighted assets (RWA) acquired. This contribution, which amounts to 3.5 billion euro not subject to taxation, will be recorded as income in the income statement, in accordance with the IAS 20 accounting standard, and was assigned to Intesa Sanpaolo on 26 June 2017. This contribution is included in the income statement under the item “Other operating income (expenses)”, while in the reclassified income statement the amount was reallocated – as non-recurring revenue not related to ordinary operations – among “Other income (expenses)”;
- an additional public cash contribution to cover integration and rationalisation charges in relation to the acquisition. These charges include, in line with the commitments undertaken by Intesa Sanpaolo with the Directorate-General for Competition of the European Commission, those relating to the closure of around 600 branches and the use of the solidarity allowance mechanism in relation to the exit, on a voluntary basis, of around 3,900 people of the Group resulting from the acquisition. These charges also relate to other actions to be taken to safeguard jobs, such as redeploying and retraining people. Also this contribution, which amounts to 1.285 billion euro not subject to taxation, will be recorded as income in the income statement, in accordance with the IAS 20 accounting standard, and was assigned on 26 June 2017. This amount was set aside in a specific fund, considering the tax effects related to its use, and is therefore neutral for the year’s net income. In particular, the contribution is included in the income statement under “Other operating income (expenses)” for 1.285 billion euro, while a specific provision for risks and charges totalling 1.913 billion euro has been set aside to cover the corresponding expenses, against which deferred tax assets for 628 million euro were recorded. This is because the contribution received to offset the restructuring charges is considered net of the related taxes, considering the future deductibility of the charges which Intesa Sanpaolo will incur. In the reclassified income statement, both the contribution and the related provision, net of tax, were included under the specific caption “Charges for integration and exit incentives (net of tax)”.

With reference to the accounting standards applied by Banca Popolare di Vicenza and Veneto Banca, the preliminary comparison carried out did not show significant differences compared to those used by Intesa Sanpaolo.

The Half-yearly condensed consolidated financial statements as at 30 June 2017 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-yearly Report includes Intesa Sanpaolo and the companies that it directly and indirectly controls, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors different from that of the Parent Company and private equity investments. Similarly, structured entities are included when the requisite of effective control recurs, even if there is no stake in the company.

Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the scope of consolidation and are classified in the Available-for-Sale category since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests. Equity investments held, directly or through funds, in companies involved in the venture capital business are also excluded from the line-by-line scope of consolidation.

These equity investments are included in the category of instruments measured at fair value. 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.

Pursuant to the international financial reporting standard applicable to the acquisition of business combinations (IFRS 3), Intesa Sanpaolo - with effect from the reporting date of these Half-yearly condensed consolidated financial statements - has recorded the legal relationships identified at a preliminary stage based on the accounting results as at 30 June 2017 of Banca Popolare di Vicenza and Veneto Banca, recognising the value of the assets and liabilities acquired as provisional (applying the principle of continuity of values). As mentioned, the contract envisages, among others, the acquisition of the shareholdings of Banca Popolare di Vicenza in Banca Nuova S.p.A. and of Veneto Banca in Banca Apulia S.p.A., Veneto Banka d.d. (Croatia), Veneto Banka sh.a. (Albania) and Eximbank s.a. (Moldova), as well as the shareholding of the two banks in SEC Servizi S.c.p.a and in Servizi Bancari S.c.p.a. subject to obtaining the related authorisations from the Supervisory Authority. With reference to the subject of control over these subsidiaries, inside the acquired segregated scope, the contractual clauses concerning the abovementioned acquisition as a whole were carefully analysed, along with the legal framework within which this operation is intended to produce its effects. With reference to the banking authorisations required to acquire control over these companies, it is necessary to report that the terms set to formulate the offer and execute the contract did not allow the parties to ask and obtain from the European Central Bank, within 30 June 2017, the necessary authorisations to transfer the control of the shareholdings in question and Intesa Sanpaolo agreed to proceed with this transfer, on the assumption that it will have the possibility of returning the shareholdings whose transfer is not authorised and be completely indemnified from any and all negative effect as a consequence of the circumstance in which the transfer not previously authorised will be finalised. Furthermore, should these authorisations not be obtained or be obtained with imposition of conditions or charges for Intesa Sanpaolo, the latter will have the right to immediately return the shareholdings to the banks under compulsory administrative liquidation and with full indemnification of any negative effect deriving from Intesa Sanpaolo maintaining these shareholdings and returning them.

In addition, with reference to the voting rights in the subsidiary banks, Intesa Sanpaolo may not exercise its vote at meetings and intervene in their management and in the replacement of the corporate bodies until the authorisations are obtained, remaining at the same time fully indemnified from any ensuing negative effect or any effect in any case connected to their management as well as to the replacement (subject to possible removal) of the members of the management and control bodies of these banks.

Given these considerations, the material elements for the control of these shareholdings, as set forth in IFRS 10, are deemed not to be present as at 30 June 2017. According to IFRS 10, for the purpose of ascertaining the existence of control, “an investor controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.” Regardless of the assessment concerning the exposure to variable returns, the element which is lacking in the case described here consists of the absence of power: “an investor has power over an investee when it has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee’s returns.” Consequently, based on the analyses conducted, it is deemed that Intesa Sanpaolo did not firmly control the shareholdings in question pursuant to IFRS 10 as at 30 June 2017; as a consequence, neither joint control nor significant influence pursuant to IFRS 11 and IAS 28, respectively, are applicable.

Therefore, when preparing these Half-yearly condensed consolidated financial statements, Intesa Sanpaolo did not carry out the line-by-line consolidation of the shareholdings in question but provisionally recorded them as shareholdings within the acquired segregated scope.

In addition to the above, the scope of consolidation did not show significant changes compared to 31 December 2016.

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.

Intragroup company transactions include, during the first half of 2017, the partial demerger of CIB Factor into CIB Bank and the merger by incorporation of Accedo into Intesa Sanpaolo.

Finally, please note that, during the first half of 2017, the conditions no longer applied for the significant influence previously exercised by Intesa Sanpaolo on Bank of Qingdao and Nuovo Trasporto Viaggiatori. With reference to Bank of Qingdao, by signing the “new Co-operation Agreement”, the elements that for IAS 28 characterise a situation of significant influence (there is no obligation for Bank of Qingdao to consult Intesa Sanpaolo in advance on significant issues, exchange of managers and the provision of essential technical information) are no longer present. Instead, in the case of Nuovo Trasporto Viaggiatori, as a result of the disposal of 4.74% of the company’s capital, leading to a reduction in the stake currently held by Intesa Sanpaolo below 20%, the “relative assumption” of significant influence envisaged by IAS 28 ceased to apply; furthermore, following the reorganisation of the company’s financial structure, mainly through the issue of a bond for 550 million euro on the market, a

significant reduction is recorded in the debt exposure of NTV towards the Intesa Sanpaolo Group, which previously consisted in an additional element supporting the significant influence. Consequently, the governance of the company was also reviewed. Therefore, the equity investments, originally classified as investment in associates pursuant to IAS 28, were reclassified within the AFS (Available For Sale) portfolio required by IAS 39, starting from 30 March 2017 (date of signing the "new Co-operation Agreement") with reference to Bank of Qingdao and from 29 June 2017 (date of selling part of the shares held) with reference to Nuovo Trasporto Viaggiatori.

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### Consolidation methods

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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 2016 Intesa Sanpaolo Group Annual Report, to which reference should therefore be made. The financial statements of the Parent Company and of other companies used to prepare the Half-yearly condensed consolidated financial statements as at 30 June 2017 refer to the same date. In certain limited cases, for subsidiaries which are not material, the latest official figures are used. Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

The financial statements of non-Eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

The following table lists the companies included in the line-by-line scope of consolidation as at 30 June 2017. Therefore, there is no indication of the shareholdings of Banca Popolare di Vicenza in Banca Nuova S.p.A. and of Veneto Banca in Banca Apulia S.p.A., Veneto Banka d.d. (Croatia), Veneto Banka sh.a. (Albania) and Eximbank s.a. (Moldova), as well as of the shareholding of the two banks in SEC Servizi S.c.p.a and in Servizi Bancari S.c.p.a., whose acquisition is subject – as already mentioned – to obtaining the banking authorisations from the Supervisory Authority.



Name	Operating office	Registered office	Type of relationship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
1 Banca 5 S.p.A. (formerly Banca ITB S.p.A.) Capital 30,000,000.00 euro	Milano	Milano	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	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	
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 Intesa Sanpaolo d.d (formerly Banka Koper d.d.) (e) Capital 22,173,218.16 euro	Koper	Koper	1	Intesa Sanpaolo	98.99	
10 Brivon Hungary Zrt - in voluntary liquidation 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	84.01	
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	
16 Cassa di Risparmio in Bologna S.p.A. Capital 703,692,000 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
17 Cib Bank Ltd Capital HUF 50,000,000,003	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
18 CIB Car Trading Ltd - in voluntary liquidation Capital HUF 10,000,000	Budapest	Budapest	1	Recovery Property Utilisation and Services	100.00	
19 CIB Factor Financial Services Ltd Capital HUF 50,000,000	Budapest	Budapest	1	Cib Bank	100.00	
20 CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank	100.00	
21 CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost	100.00	
22 CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank	100.00	
23 CIB Real Estate Ltd Capital HUF 52,000,000	Budapest	Budapest	1	Cib Bank	100.00	
24 CIB Rent Operative Leasing Ltd Capital HUF 5,000,000	Budapest	Budapest	1	Cib Bank	100.00	
25 Compagnia Italiana Finanziaria - CIF S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
26 Consumer Finance Holding a.s. Capital 53,110,277 euro	Kezmarok	Kezmarok	1	Vseobecna Uverova Banka	100.00	
27 Consumer Finance Holding Ceska Republika a.s. Capital Czk 86,300,000	Prague	Prague	1	Consumer Finance Holding	100.00	
28 Duomo Funding Plc (g)	Dublin	Dublin	4	Intesa Sanpaolo	-	
29 Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR Banca IMI	51.00 49.00	
30 Etoile Actualis S.a.r.l. Capital 29,709,643 euro	Paris	Paris	1	Risanamento Europa	100.00	
31 Etoile François Premier S.a.r.l. Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	

Name	Operating office	Registered office	Type of relationship (a)	INVESTMENT		Votes available % (b)
				direct ownership	% held	
32 Etoile Saint Florentin S.a.r.l. Capital 540,720 euro	Paris	Paris	1	Risanamento Europa	100.00	
33 Etoile Services S.a.r.l. Capital 1,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
34 Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
35 Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
36 Eurizon Sij Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	
37 Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
38 Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
39 Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
40 Fideuram Fiduciaria S.p.A. Capital 1,551,000 euro	Torino	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
41 Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
42 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
43 Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
44 IMI Capital Markets USA Corp. Capital USD 5.000	New York	New York	1	IMI Investments	100.00	
45 IMI Finance Luxembourg S.A. Capital 100,000 euro	Luxembourg	Luxembourg	1	IMI Investments	100.00	
46 IMI Fondi Chiusi S.G.R. S.p.A. Capital 2,000,000 euro	Bologna	Bologna	1	IMI Investimenti	100.00	
47 IMI Investimenti S.p.A. Capital 579,184,200 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
48 IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
49 Immobiliare Cascina Rubina S.r.l.(i) Capital 1,371,066 euro	Milano	Milano	1	Risanamento	100.00	
50 IN.FRA - Investire nelle Infrastrutture S.r.l. (formerly IN.FRA - Investire nelle Infrastrutture S.p.A.) Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
51 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 other smaller investments	65.45 31.77 2.76 0.01 0.01	100.00
52 Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
53 Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
54 Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
55 Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
56 Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
57 Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
58 Intesa Sanpaolo Bank Luxembourg S.A. Capital 989,370,720.28 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	99.57 0.43	100.00
59 Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	94.94	
60 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
61 Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC) Capital USD 25.000	New York	Wilmington	1	Intesa Sanpaolo	100.00	

Name	Operating office	Registered office	Type of relationship (a)	INVESTMENT		Votes available % (b)
				direct ownership	% held	
62 Intesa Sanpaolo Group Services S.c.p.A. Capital 272,586,637 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 other smaller investments	99.92 0.01 0.01 0.01 0.01 0.01 0.01 0.01	100.00
63 Intesa Sanpaolo Harbourmaster III S.A. Capital 5,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	100.00
64 Intesa Sanpaolo Holding International S.A. Capital 2,157,957,270 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	100.00
65 Intesa Sanpaolo Immobilière S.A. Capital 350,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	100.00
66 Intesa Sanpaolo Life DAC (formerly Intesa Sanpaolo Life Ltd) Capital 625,000 euro	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	100.00
67 Intesa Sanpaolo Private Bank (Suisse) S.A. Capital CHF 20,000,000	Lugano	Lugano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	100.00
68 Intesa Sanpaolo Private Banking S.p.A. Capital 105,497,424 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	100.00
69 Intesa Sanpaolo Provis S.p.A. Capital 4,875,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	100.00
70 Intesa Sanpaolo RE.O.CO. S.p.A. Capital 13,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	100.00
71 Intesa Sanpaolo Real Estate S.A. Capital 2,940,476 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	100.00
72 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
73 Intesa Sanpaolo Sec S.A. Capital 31,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	100.00
74 Intesa Sanpaolo Securitisation Vehicle S.r.l. Capital 60,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	100.00
75 Intesa Sanpaolo Servitia S.A. Capital 1,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	100.00
76 Intesa Sanpaolo Smart Care S.r.l. Capital 800,000 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	100.00
77 Intesa Sanpaolo Vita S.p.A. Capital 320,422,508.53 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	100.00
78 Intesa Sec. 3 S.r.l. Capital 70,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	100.00
79 Intesa Sec. Npl S.p.A. Capital 129,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	100.00
80 Intesa Sec. S.p.A. Capital 100,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	100.00
81 ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	100.00
82 ISP CB Pubbico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	100.00
83 ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	100.00
84 Lunar Funding V Plc (g)	Dublin	Dublin	4	Intesa Sanpaolo	-	100.00
85 Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	100.00
86 Mediocredito Italiano S.p.A. Capital 992,043,495 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	100.00
87 Milano Santa Giulia S.p.A. (i) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	100.00
88 MSG Comparto Primo S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
89 MSG Comparto Quarto S.r.l. (i) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
90 MSG Comparto Secondo S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
91 MSG Comparto Terzo S.r.l. (i) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
92 MSG Residenze S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	100.00
93 Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	100.00

Name	Operating office	Registered office	Type of relationship (a)	INVESTMENT		Votes available % (b)
				direct ownership	% held	
94 PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
95 PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Vub Asset Management Spravcovska Spolocnost	100.00	
96 PBZ Leasing d.o.o. za poslove leasinga Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
97 PBZ Nekretnine d.o.o. Capital HRK 3,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
98 PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
99 Pravex Bank Public Joint-Stock Company Commercial Bank Capital UAH 968,370,561.86	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
100 Private Equity International S.A. (c) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo IMI Investimenti	85.80 8.59	90.90 9.10
					94.39	100.00
101 Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
102 Qingdao Yicai Wealth Management Co. Ltd. Capital CNY 146,000,000	Qingdao	Qingdao	1	Eurizon Capital SGR Fideuram - Intesa Sanpaolo Private Banking Intesa Sanpaolo	20.00 25.00 55.00	100.00
103 Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	
104 Ri. Estate S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
105 Ri. Progetti S.p.A. (i) Capital 510,000 euro	Milano	Milano	1	Risanamento	100.00	
106 Ri. Rental S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
107 Risanamento Europa S.r.l. (i) Capital 100,125,050 euro	Milano	Milano	1	Risanamento	100.00	
108 Risanamento S.p.A. (i) Capital 382,301,510.57 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
109 Romulus Funding Corporation (g)	New York	New York	4	Intesa Sanpaolo	-	
110 Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
111 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	
112 Sviluppo Comparto 3 S.r.l.(i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
113 Trade Receivables Investment Vehicle Sarl	Luxembourg	Luxembourg	4	Banca IMI/Duomo Funding	100.00	
114 Vseobecna Uverova Banka a.s. Capital 430,819,063.81 euro	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
115 VUB Asset Management Sprav. Spol a.s. Capital 4,093,560 euro	Bratislava	Bratislava	1	Eurizon Capital	100.00	
116 VUB Factoring a.s. Capital 2,232,334 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	
117 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) On 23/12/2016, the subsidiary Private Equity International issued a new category of class C shares representing 5.6% of the company's capital. These shares do not carry the right to vote in the shareholders' meeting and their return is dependent on the financial performance of certain investments held in portfolio by Private Equity International.

(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&amp;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 1.01% 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.

## 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 segments 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 contractual agreements between the 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 costs for services carried out by central structures; these charges for the operating business units are calculated on the basis of services actually rendered, while the costs of guidance and control activities have been 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.

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## Subsequent events

On the 27 July 2017, Engineering and Intesa Sanpaolo signed an agreement for the sale of 100% of the share capital of Infogroup, held by the banking group. The agreement includes, among other things, the establishment of a commercial agreement between Infogroup and the Intesa Sanpaolo Group, and maintaining employment levels. The transaction is expected to be completed by the end of the year and is only subject to the usual authorisations from the competent authorities.

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# Economic results

## General aspects

A condensed reclassified income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary, 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.

With reference to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, please note that the economic result attributable to said segregated scope generated during the period from 26 June 2017 (date of acquisition) to 30 June 2017, was not considered, insofar as it was not significant compared to the amounts represented in the Intesa Sanpaolo Group's consolidated income statement.

Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.

In summary, the reclassifications and aggregations 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 recorded in 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 (expenses);
- Profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
- Net impairment losses on other financial activities, 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 financial assets available for sale, held to maturity, on investments, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Net impairment losses on other assets, which consequently includes – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to Impairment of goodwill and other intangible assets;
- realised profits (losses) on investments held to maturity, on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans.
- Charges (net of tax) for integration and exit incentives, which 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;
- levies and other charges aimed at maintaining the stability of the banking system, which have been reclassified, after tax, to the specific caption;
- 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

	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	3,620	3,687	-67	-1.8
Net fee and commission income	3,751	3,545	206	5.8
Income from insurance business	523	571	-48	-8.4
Profits (Losses) on trading	591	695	-104	-15.0
Other operating income (expenses)	72	143	-71	-49.7
<b>Operating income</b>	<b>8,557</b>	<b>8,641</b>	<b>-84</b>	<b>-1.0</b>
Personnel expenses	-2,624	-2,620	4	0.2
Other administrative expenses	-1,216	-1,238	-22	-1.8
Adjustments to property, equipment and intangible assets	-374	-357	17	4.8
<b>Operating costs</b>	<b>-4,214</b>	<b>-4,215</b>	<b>-1</b>	<b>-</b>
<b>Operating margin</b>	<b>4,343</b>	<b>4,426</b>	<b>-83</b>	<b>-1.9</b>
Net adjustments to loans	-1,432	-1,617	-185	-11.4
Net provisions and net impairment losses on other assets	-60	-240	-180	-75.0
Other income (expenses)	3,813	201	3,612	
Income (Loss) from discontinued operations	-	48	-48	
<b>Gross income (loss)</b>	<b>6,664</b>	<b>2,818</b>	<b>3,846</b>	
Taxes on income	-889	-793	96	12.1
Charges (net of tax) for integration and exit incentives	-53	-51	2	3.9
Effect of purchase price allocation (net of tax)	-11	-56	-45	-80.4
Levies and other charges concerning the banking industry (net of tax)	-460	-113	347	
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-13	-98	-85	-86.7
<b>Net income (loss)</b>	<b>5,238</b>	<b>1,707</b>	<b>3,531</b>	

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



## Quarterly development of the reclassified income statement

(millions of euro)

	2017		2016			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,815	1,805	1,748	1,859	1,832	1,855
Net fee and commission income	1,896	1,855	2,030	1,756	1,858	1,687
Income from insurance business	240	283	166	258	239	332
Profits (Losses) on trading	365	226	247	248	467	228
Other operating income (expenses)	32	40	-7	29	68	75
<b>Operating income</b>	<b>4,348</b>	<b>4,209</b>	<b>4,184</b>	<b>4,150</b>	<b>4,464</b>	<b>4,177</b>
Personnel expenses	-1,338	-1,286	-1,393	-1,310	-1,341	-1,279
Other administrative expenses	-633	-583	-765	-627	-641	-597
Adjustments to property, equipment and intangible assets	-188	-186	-206	-186	-179	-178
<b>Operating costs</b>	<b>-2,159</b>	<b>-2,055</b>	<b>-2,364</b>	<b>-2,123</b>	<b>-2,161</b>	<b>-2,054</b>
<b>Operating margin</b>	<b>2,189</b>	<b>2,154</b>	<b>1,820</b>	<b>2,027</b>	<b>2,303</b>	<b>2,123</b>
Net adjustments to loans	-737	-695	-1,174	-917	-923	-694
Net provisions and net impairment losses on other assets	-57	-3	-105	-77	-194	-46
Other income (expenses)	3,617	196	138	16	196	5
Income (Loss) from discontinued operations	-	-	881	23	28	20
<b>Gross income (loss)</b>	<b>5,012</b>	<b>1,652</b>	<b>1,560</b>	<b>1,072</b>	<b>1,410</b>	<b>1,408</b>
Taxes on income	-444	-445	-314	-321	-361	-432
Charges (net of tax) for integration and exit incentives	-41	-12	-83	-16	-38	-13
Effect of purchase price allocation (net of tax)	-5	-6	-30	-26	-27	-29
Levies and other charges concerning the banking industry (net of tax)	-178	-282	-377	-69	-11	-102
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Minority interests	-7	-6	20	-12	-72	-26
<b>Net income (loss)</b>	<b>4,337</b>	<b>901</b>	<b>776</b>	<b>628</b>	<b>901</b>	<b>806</b>

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

In a context of stronger economic growth in the Eurozone, the Intesa Sanpaolo Group closed the first half of 2017 with an increase in net income compared to the same period of the previous year. The result for the half year, excluding the public contribution of 3,500 million euro received to offset the impact on the capital ratios deriving from the acquisition of assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, was 1,738 million euro, driven by the continuity of revenues, careful management of operating costs and a reduction in adjustments and provisions.

The negative impact of the greater charges concerning the banking industry was offset by the development of fees and commissions and higher gains on the disposal of equity investments and the fair value measurement of some investments.

### Operating income

Operating income amounted to 8,557 million euro, down 1% compared to the figure in the first half of 2016, as a result of the decline in net interest income (-1.8%), in profits on trading (-15%), in income from insurance business (-8.4%) and the lower profits on investments carried at equity, mostly offset by the excellent performance of net fee and commission income (+5.8%), which constitutes the most important source of revenues.

**Net interest income**

			(millions of euro)		Quarterly development Net interest income	
	30.06.2017	30.06.2016	Changes amount	%		
Relations with customers	3,629	3,783	-154	-4.1		
Securities issued	-1,341	-1,675	-334	-19.9		
<b>Customer dealing</b>	<b>2,288</b>	<b>2,108</b>	<b>180</b>	<b>8.5</b>		
Financial assets held for trading	49	78	-29	-37.2		
Investments held to maturity	21	27	-6	-22.2		
Financial assets available for sale	322	396	-74	-18.7		
<b>Financial assets</b>	<b>392</b>	<b>501</b>	<b>-109</b>	<b>-21.8</b>		
<b>Relations with banks</b>	<b>84</b>	<b>31</b>	<b>53</b>			
<b>Differentials on hedging derivatives</b>	<b>67</b>	<b>279</b>	<b>-212</b>	<b>-76.0</b>		
<b>Non-performing assets</b>	<b>741</b>	<b>794</b>	<b>-53</b>	<b>-6.7</b>		
<b>Other net interest income</b>	<b>48</b>	<b>-26</b>	<b>74</b>			
<b>Net interest income</b>	<b>3,620</b>	<b>3,687</b>	<b>-67</b>	<b>-1.8</b>		

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

Net interest income amounted to 3,620 million euro, recording a drop of 1.8% compared to the first half of 2016, which is lower than that recorded at the end of March (-2.7%). With a spread at very low historical levels, the result was influenced by the gradual depreciation of the Egyptian pound since November 2016, which penalised the result of the International Subsidiary Banks, by the more limited contribution from the hedging of core deposits and by the lower interest on non-performing assets as a consequence of the proactive management of NPLs, confirmed by the decrease in unlikely-to-pay loans. Despite the unfavourable effect of fewer working days compared to the first half of 2016, the commercial component of the margin showed a positive performance, benefiting from a recovery in volumes with regard to assets. Income from customers dealing amounted to 2,288 million euro, higher than the 2,108 million euro recorded in the corresponding period of 2016.

Interest on financial assets fell by 21.8%, due to the decline in interest on assets available for sale (-74 million euro) and, to a lesser extent, in interest on trading activities and on assets held to maturity.

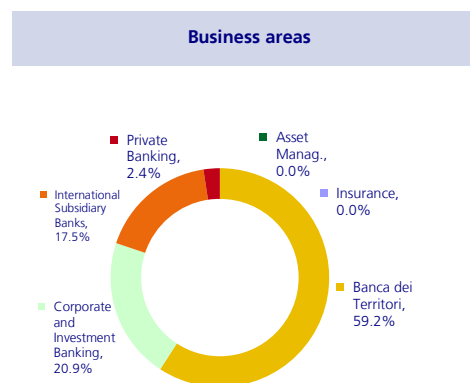
Net interest income on the interbank market came to 84 million euro compared to the 31 million euro recorded in the first half of 2016, due to the reduction in interest expense on interbank funding. The interest income accrued on the deposit at TLTRO II negative rates signed with the Bank of Italy, regarding an exposure that amounted on average to about 51 billion euro in the first half of the year, amounted to 100 million euro and was recorded among other net interest income. The reduced differentials on hedging derivatives had a negative impact.

	2017		(millions of euro)	
	Second quarter	First quarter	Changes amount	%
Relations with customers	1,806	1,823	-17	-0.9
Securities issued	-647	-694	-47	-6.8
<b>Customer dealing</b>	<b>1,159</b>	<b>1,129</b>	<b>30</b>	<b>2.7</b>
Financial assets held for trading	26	23	3	13.0
Investments held to maturity	10	11	-1	-9.1
Financial assets available for sale	160	162	-2	-1.2
<b>Financial assets</b>	<b>196</b>	<b>196</b>	<b>-</b>	<b>-</b>
<b>Relations with banks</b>	<b>42</b>	<b>42</b>	<b>-</b>	<b>-</b>
<b>Differentials on hedging derivatives</b>	<b>29</b>	<b>38</b>	<b>-9</b>	<b>-23.7</b>
<b>Non-performing assets</b>	<b>362</b>	<b>379</b>	<b>-17</b>	<b>-4.5</b>
<b>Other net interest income</b>	<b>27</b>	<b>21</b>	<b>6</b>	<b>28.6</b>
<b>Net interest income</b>	<b>1,815</b>	<b>1,805</b>	<b>10</b>	<b>0.6</b>

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

Net interest income for the second quarter of 2017 amounted to 1,815 million euro, slightly higher than net interest income for the first quarter of this year, benefiting from a lower cost of funding.

	30.06.2017	30.06.2016	Changes	
			amount	%
Banca dei Territori	2,255	2,301	-46	-2.0
Corporate and Investment Banking	796	712	84	11.8
International Subsidiary Banks	667	728	-61	-8.4
Private Banking	90	89	1	1.1
Asset Management	-	-	-	-
Insurance	-	-	-	-
<b>Total business areas</b>	<b>3,808</b>	<b>3,830</b>	<b>-22</b>	<b>-0.6</b>
Corporate Centre	-188	-143	45	31.5
<b>Intesa Sanpaolo Group</b>	<b>3,620</b>	<b>3,687</b>	<b>-67</b>	<b>-1.8</b>



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 approximately 60% of business area results, though benefiting from growing customer dealing, recorded a decline of 2% in net interest income, driven also by the more limited contribution from the hedging of core deposits. The net interest income of the Corporate and Investment Banking Division is up (+11.8%) in relation to the greater contribution from customer dealing. The net interest income of the International Subsidiary Banks decreased by 8.4%, due to the gradual depreciation of the Egyptian pound as from November 2016. Lastly, the interest income of Private Banking - which in relative terms has a lower incidence on the Consolidated result - increased by 1.1% thanks to the increase in average volumes that more than offset the decline in the reference interest rates.

### Net fee and commission income

	30.06.2017	30.06.2016	Changes	
			amount	%
Guarantees given / received	167	166	1	0.6
Collection and payment services	192	190	2	1.1
Current accounts	505	509	-4	-0.8
Credit and debit cards	175	184	-9	-4.9
<b>Commercial banking activities</b>	<b>1,039</b>	<b>1,049</b>	<b>-10</b>	<b>-1.0</b>
Dealing and placement of securities	358	244	114	46.7
Currency dealing	21	20	1	5.0
Portfolio management	1,099	1,005	94	9.4
Distribution of insurance products	739	689	50	7.3
Other	79	79	-	-
<b>Management, dealing and consultancy activities</b>	<b>2,296</b>	<b>2,037</b>	<b>259</b>	<b>12.7</b>
<b>Other net fee and commission income</b>	<b>416</b>	<b>459</b>	<b>-43</b>	<b>-9.4</b>
<b>Net fee and commission income</b>	<b>3,751</b>	<b>3,545</b>	<b>206</b>	<b>5.8</b>



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

Net fee and commission income for the first six months of 2017, which makes up 44% of operating income, came to 3,751 million euro, with an increase of 5.8% compared to the same period of 2016, mainly as a result of the positive performance of the management and dealing activity, which benefited from a recovery in prices and an increase in volumes placed.

Fee and commission income on commercial banking activities amounted to 1,039 million euro, compared to the 1,049 million euro obtained in the first half of 2016, essentially in relation to the limited reduction in the fees and commissions on debit card and credit card services, as well as on guarantees given. Management, dealing and financial consultancy activities, which provided the greatest contribution, generated net fee and commission income of 2,296 million euro, up 12.7%.

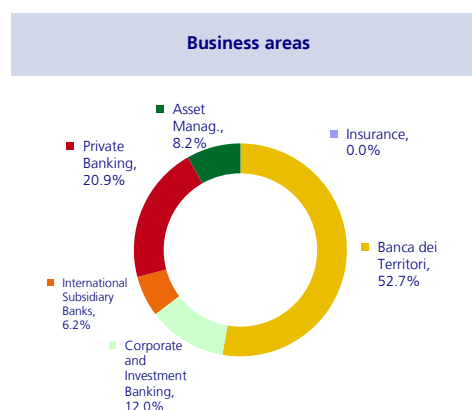
The significant commercial effort devoted by the Group's distribution network to asset management products, accompanied by an improvement in the situation on the stock markets and the volumes of securities traded, produced notable growth in fee and commission income on securities dealing and placement as well as on portfolio management in the first half of 2017. Fees and commissions on insurance products continued to grow (+ 7%), while other management and dealing fees and commissions remained substantially stable. Other net fee and commission income showed a decline of 9.4%.

	(millions of euro)			
	2017		Changes	
	Second quarter	First quarter	amount	%
Guarantees given / received	86	81	5	6.2
Collection and payment services	97	95	2	2.1
Current accounts	253	252	1	0.4
Credit and debit cards	92	83	9	10.8
<b>Commercial banking activities</b>	<b>528</b>	<b>511</b>	<b>17</b>	<b>3.3</b>
Dealing and placement of securities	182	176	6	3.4
Currency dealing	11	10	1	10.0
Portfolio management	560	539	21	3.9
Distribution of insurance products	366	373	-7	-1.9
Other	39	40	-1	-2.5
<b>Management, dealing and consultancy activities</b>	<b>1,158</b>	<b>1,138</b>	<b>20</b>	<b>1.8</b>
<b>Other net fee and commission income</b>	<b>210</b>	<b>206</b>	<b>4</b>	<b>1.9</b>
<b>Net fee and commission income</b>	<b>1,896</b>	<b>1,855</b>	<b>41</b>	<b>2.2</b>

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

Net fee and commission income in the second quarter of 2017 was higher than that recorded in the first, driven both by the favourable market conditions which drove management, dealing and financial consultancy activities, and by the increase in net fee and commission income generated by commercial banking activities.

	(millions of euro)			
	30.06.2017	30.06.2016	Changes	
			amount	%
Banca dei Territori	2,063	1,964	99	5.0
Corporate and Investment Banking	469	483	-14	-2.9
International Subsidiary Banks	241	236	5	2.1
Private Banking	819	763	56	7.3
Asset Management	322	261	61	23.4
Insurance	-	-	-	-
<b>Total business areas</b>	<b>3,914</b>	<b>3,707</b>	<b>207</b>	<b>5.6</b>
Corporate Centre	-163	-162	1	0.6
<b>Intesa Sanpaolo Group</b>	<b>3,751</b>	<b>3,545</b>	<b>206</b>	<b>5.8</b>

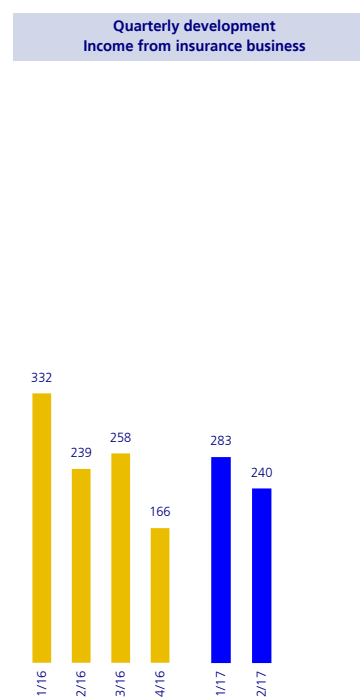


Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

In relation to the business areas, the Banca dei Territori Division, which represents more than half the result of the business units, showed an increase in fee and commission income (+5%, or +99 million euro), mostly coming from the asset management segment - which has benefited from more placements of asset-management products and certificates - and the fees on protection products, driven by the positive trend in issues; the Asset Management Division recorded an increase of 23.4% (+61 million euro), thanks to the positive performance of management fees and commissions related to the increase in average assets under management; the Private Banking Division posted an increase of +7.3% (+56 million euro), confirming the positive performance of assets under management; finally the Corporate and Investment Banking Division recorded a decline of 2.9% (-14 million euro), as a result of lower fee and commission income from the commercial banking area (loans, guarantees and interbank services), only partially offset by the positive performance recorded in the capital markets sector.

## Income from insurance business

Captions (a)	30.06.2017			30.06.2016			(millions of euro) Changes	
	Life	Non-life	Total	Life	Non-life	Total	amount	%
<b>Technical margin</b>	<b>27</b>	<b>42</b>	<b>69</b>	<b>39</b>	<b>39</b>	<b>78</b>	<b>-9</b>	<b>-11.5</b>
Net insurance premiums (b)	3,079	175	3,254	4,996	148	5,144	-1,890	-36.7
Net charges for insurance claims and surrenders (c)	-4,664	-47	-4,711	-4,271	-40	-4,311	400	9.3
Net charges for changes in technical reserves (d)	1,039	-	1,039	-1,345	-	-1,345	2,384	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	689	-	689	798	-	798	-109	-13.7
Net fees on investment contracts (f)	129	1	130	116	-	116	14	12.1
Commission expenses on insurance contracts (g)	-246	-58	-304	-263	-48	-311	-7	-2.3
Other technical income and expense (h)	1	-29	-28	8	-21	-13	15	
<b>Net investment result</b>	<b>524</b>	<b>6</b>	<b>530</b>	<b>577</b>	<b>20</b>	<b>597</b>	<b>-67</b>	<b>-11.2</b>
Operating income from investments	2,114	6	2,120	1,232	20	1,252	868	69.3
<i>Net interest income</i>	997	3	1,000	995	4	999	1	0.1
<i>Dividends</i>	123	1	124	122	2	124	-	-
<i>Gains/losses on disposal</i>	878	2	880	238	14	252	628	
<i>Valuation gains/losses</i>	154	-	154	-85	-	-85	239	
<i>Portfolio management fees paid (i)</i>	-38	-	-38	-38	-	-38	-	-
Gains (losses) on investments pertaining to insured parties	-1,590	-	-1,590	-655	-	-655	935	
<i>Insurance products (j)</i>	-724	-	-724	-726	-	-726	-2	-0.3
<i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i>	35	-	35	-72	-	-72	107	
<i>Investment products (l)</i>	-901	-	-901	143	-	143	-1,044	
<b>Income from insurance business gross of consolidation effects</b>	<b>551</b>	<b>48</b>	<b>599</b>	<b>616</b>	<b>59</b>	<b>675</b>	<b>-76</b>	<b>-11.3</b>
Consolidation effects	-76	-	-76	-102	-2	-104	-28	-26.9
<b>Income from insurance business</b>	<b>475</b>	<b>48</b>	<b>523</b>	<b>514</b>	<b>57</b>	<b>571</b>	<b>-48</b>	<b>-8.4</b>



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 the current financial year, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, recorded a moderate drop in revenues, standing at 523 million euro, compared to the 571 million euro recorded in the same period of 2016. This performance was determined mainly by the worsening of the net investment result, affected by a greater incidence of the result from investments pertaining to insured parties, in particular of investment products. The life business was also adversely affected by the weak performance of premiums on traditional products that affected the technical margin.

Captions (a)	2017		(millions of euro)	
	Second quarter	First quarter	Changes amount	%
<b>Technical margin</b>	<b>94</b>	<b>-25</b>	<b>119</b>	
Net insurance premiums (b)	1,455	1,799	-344	-19.1
Net charges for insurance claims and surrenders (c)	-2,484	-2,227	257	11.5
Net charges for changes in technical reserves (d)	866	173	693	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	356	333	23	6.9
Net fees on investment contracts (f)	55	75	-20	-26.7
Commission expenses on insurance contracts (g)	-143	-161	-18	-11.2
Other technical income and expense (h)	-11	-17	-6	-35.3
<b>Net investment result</b>	<b>185</b>	<b>345</b>	<b>-160</b>	<b>-46.4</b>
Operating income from investments	497	1,623	-1,126	-69.4
<i>Net interest income</i>	511	489	22	4.5
<i>Dividends</i>	80	44	36	81.8
<i>Gains/losses on disposal</i>	481	399	82	20.6
<i>Valuation gains/losses</i>	-556	710	-1,266	
<i>Portfolio management fees paid (i)</i>	-19	-19	-	-
Gains (Losses) on investments pertaining to insured parties	-312	-1,278	-966	-75.6
<i>Insurance products (j)</i>	-408	-316	92	29.1
<i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i>	52	-17	69	
<i>Investment products (l)</i>	44	-945	989	
<b>Income from insurance business gross of consolidation effects</b>	<b>279</b>	<b>320</b>	<b>-41</b>	<b>-12.8</b>
Consolidation effects	-39	-37	2	5.4
<b>Income from insurance business</b>	<b>240</b>	<b>283</b>	<b>-43</b>	<b>-15.2</b>

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

For notes, see the previous table

The income from insurance business for the second quarter of 2017, including the life and non-life businesses, was lower by 15.2% than that achieved in the first quarter, as a result of the decrease in the net investment result, only partly offset by the improvement in the technical margin.

	30.06.2017			30.06.2016	
	Periodic premiums	Single premiums	Total	of which new business	
<b>Life insurance business</b>	<b>94</b>	<b>2,986</b>	<b>3,080</b>	<b>3,004</b>	<b>4,997</b>
Premiums issued on traditional products	84	2,715	2,799	2,734	4,742
Premiums issued on unit-linked products	4	4	8	4	11
Premiums issued on capitalisation products	-	-	-	-	-
Premiums issued on pension funds	6	267	273	266	244
<b>Non-life insurance business</b>	<b>36</b>	<b>144</b>	<b>180</b>	<b>-80</b>	<b>150</b>
Premiums issued	41	192	233	52	197
Change in premium reserves	-5	-48	-53	-132	-47
<b>Premiums ceded to reinsurers</b>	<b>-2</b>	<b>-4</b>	<b>-6</b>	<b>-4</b>	<b>-5</b>
<b>Net premiums from insurance products</b>	<b>128</b>	<b>3,126</b>	<b>3,254</b>	<b>2,920</b>	<b>5,142</b>
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	41	8,368	8,409	8,400	7,797
<b>Total business from investment contracts</b>	<b>41</b>	<b>8,368</b>	<b>8,409</b>	<b>8,400</b>	<b>7,797</b>
<b>Total business</b>	<b>169</b>	<b>11,494</b>	<b>11,663</b>	<b>11,320</b>	<b>12,939</b>

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

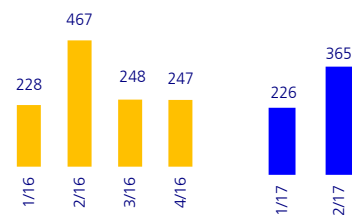
In the first half of 2017, business in the insurance segment remained at high levels, close to 12 billion euro, just below the 13 billion euro deposited in the corresponding period of 2016. The shift towards unit-linked investment contracts compared to traditional life business policies, which had already been observed last year, continued during the period.

New business was nearly 11.3 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

### Profits (Losses) on trading

	30.06.2017		30.06.2016		Changes	
	amount	%	amount	%	amount	%
Interest rates	212		32		180	
Equity instruments	107		32		75	
Currencies	-73		171		-244	
Structured credit products	20		5		15	
Credit derivatives	22		13	69.2	9	
Commodity derivatives	5		20	-75.0	-15	
<b>Trading result</b>	<b>293</b>		<b>273</b>		<b>20</b>	<b>7.3</b>
<b>Trading on AFS securities and financial liabilities</b>	<b>298</b>		<b>422</b>		<b>-124</b>	<b>-29.4</b>
<b>Profits (Losses) on trading</b>	<b>591</b>		<b>695</b>		<b>-104</b>	<b>-15.0</b>

Quarterly development  
Profits (Losses) on trading



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

Profits on trading posted a result of 591 million euro in the first half of 2017; the decrease of 104 million euro compared to the same period of the previous financial year is due entirely to the lower dividend received on the stake held in the Bank of Italy, which fell from 121 million euro last year to 10 million euro in the current year. The performance on an annual basis is attributable to the drop in trading in AFS securities and financial liabilities, only partly offset by the results of trading activities, especially those on interest rates and equity instruments.

(millions of euro)

	2017		Changes	
	Second quarter	First quarter	amount	%
Interest rates	115	97	18	18.6
Equity instruments	49	58	-9	-15.5
Currencies	-45	-28	17	60.7
Structured credit products	12	8	4	50.0
Credit derivatives	2	20	-18	-90.0
Commodity derivatives	3	2	1	50.0
<b>Trading result</b>	<b>136</b>	<b>157</b>	<b>-21</b>	<b>-13.4</b>
<b>Trading on AFS securities and financial liabilities</b>	<b>229</b>	<b>69</b>	<b>160</b>	
<b>Profits (Losses) on trading</b>	<b>365</b>	<b>226</b>	<b>139</b>	<b>61.5</b>

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

The second quarter of this year recorded significant progress (365 million euro of revenues compared to the 226 million euro recorded in the first quarter), thanks to higher profits achieved by the Parent Company, Banca IMI and VUB Banka on trading on AFS securities and financial liabilities.

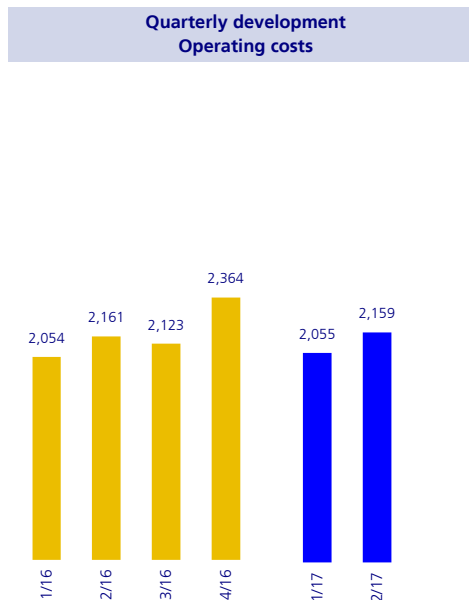
It should be noted that the sub-caption "Trading on AFS securities and financial liabilities" incorporates, in addition to dividends and proceeds on the trading of securities classified as available for sale, the effects of the measurement at fair value of financial liabilities issued associated with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

### Other operating income (expenses)

In the first half of 2017, Other operating income and expenses, which totalled 72 million euro (143 million euro in in the same period of 2016) include the income and expenses from continuing operations - except for recoveries of expenses, taxes and duties, which are deducted from the sub-captions of administrative expenses - as well as profits on investments carried at equity. The negative performance on an annual basis is attributable to this latter aggregate, which presents a positive balance of 54 million euro, a significant reduction compared to the 158 million euro recorded in the same period of last year.

### Operating costs

	30.06.2017		30.06.2016		Changes	
	amount	%	amount	%	amount	%
Wages and salaries	1,796	1,799	-3	-0.2		
Social security charges	468	455	13	2.9		
Other	360	366	-6	-1.6		
<b>Personnel expenses</b>	<b>2,624</b>	<b>2,620</b>	<b>4</b>	<b>0.2</b>		
Information technology expenses	306	301	5	1.7		
Management of real estate assets expenses	261	269	-8	-3.0		
General structure costs	189	202	-13	-6.4		
Professional and legal expenses	181	171	10	5.8		
Advertising and promotional expenses	45	47	-2	-4.3		
Indirect personnel costs	50	47	3	6.4		
Other costs	158	168	-10	-6.0		
Indirect taxes and duties	454	442	12	2.7		
Recovery of expenses and charges	-428	-409	19	4.6		
<b>Administrative expenses</b>	<b>1,216</b>	<b>1,238</b>	<b>-22</b>	<b>-1.8</b>		
Property and equipment	160	166	-6	-3.6		
Intangible assets	214	191	23	12.0		
<b>Adjustments</b>	<b>374</b>	<b>357</b>	<b>17</b>	<b>4.8</b>		
<b>Operating costs</b>	<b>4,214</b>	<b>4,215</b>	<b>-1</b>	<b>-</b>		



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

Operating costs amounted to 4,214 million euro and were in line with those recorded in the first six months of 2016. Personnel expenses, at 2,624 million euro, showed a slight increase (+0.2%) attributable to the variable portion of the cost. Administrative expenses continued their positive performance, which has distinguished the Intesa Sanpaolo Group since its establishment, and stood at 1,216 million euro, down 1.8% thanks to the savings achieved on general structure costs, property management expenses and other costs.

Amortisation and depreciation, amounting to 374 million euro, showed an increase of 4.8% compared to the first half of 2016, which is related to capitalisation of investments in intangible assets by Intesa Sanpaolo Group Services.

The cost/income ratio for the period amounted to 49.2%, compared to the 48.8% recorded for the same period of 2016, due to the combined performance of revenues and operating costs.



(millions of euro)

	2017		Changes	
	Second quarter	First quarter	amount	%
Wages and salaries	916	880	36	4.1
Social security charges	239	229	10	4.4
Other	183	177	6	3.4
<b>Personnel expenses</b>	<b>1,338</b>	<b>1,286</b>	<b>52</b>	<b>4.0</b>
Information technology expenses	155	151	4	2.6
Management of real estate assets expenses	130	131	-1	-0.8
General structure costs	91	98	-7	-7.1
Professional and legal expenses	105	76	29	38.2
Advertising and promotional expenses	27	18	9	50.0
Indirect personnel costs	25	25	-	-
Other costs	84	74	10	13.5
Indirect taxes and duties	255	199	56	28.1
Recovery of expenses and charges	-239	-189	50	26.5
<b>Administrative expenses</b>	<b>633</b>	<b>583</b>	<b>50</b>	<b>8.6</b>
Property and equipment	79	81	-2	-2.5
Intangible assets	109	105	4	3.8
<b>Adjustments</b>	<b>188</b>	<b>186</b>	<b>2</b>	<b>1.1</b>
<b>Operating costs</b>	<b>2,159</b>	<b>2,055</b>	<b>104</b>	<b>5.1</b>

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 5.1% 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 those relating to legal and professional expenses.

(millions of euro)

	30.06.2017	30.06.2016	Changes		Business areas
			amount	%	
Banca dei Territori	2,415	2,450	-35	-1.4	
Corporate and Investment Banking	467	460	7	1.5	
International Subsidiary Banks	453	478	-25	-5.2	
Private Banking	269	258	11	4.3	
Asset Management	72	64	8	12.5	
Insurance	85	75	10	13.3	
<b>Total business areas</b>	<b>3,761</b>	<b>3,785</b>	<b>-24</b>	<b>-0.6</b>	
Corporate Centre	453	430	23	5.3	
<b>Intesa Sanpaolo Group</b>	<b>4,214</b>	<b>4,215</b>	<b>-1</b>	<b>-</b>	

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

The performance of Group operating costs was the result of a differentiated dynamic amongst the business units. The Banca dei Territori Division, which accounts for about 65% of all costs for the business areas, reported savings compared to the first half of 2016 (-1.4%) thanks to lower administrative expenses, in particular in relation to real estate and personnel. Operating costs also fell for the International Subsidiary Banks (-25 million euro, or -5.2%), due to the reduction in personnel expenses and, to a lesser extent, administrative expenses and adjustments. In contrast, the other Business Units posted increases in operating costs, albeit limited in absolute value: the Corporate and Investment Banking Division (+1.5%) and the Private Banking Division (+4.3%) due to higher personnel expenses, while the Insurance Division (+13.3%) and the Asset Management Division (+12.5%) due to the higher personnel and administrative expenses.

### Operating margin

The operating margin was 4,343 million euro in the first six months of 2017, down 1.9% compared to the same period of 2016, as a result of the moderate decline in revenue performance.

**Net adjustments to loans**

	30.06.2017	30.06.2016	Changes		Quarterly development Net adjustments to loans					
			amount	%						
Bad loans	-825	-973	-148	-15.2						
Unlikely to pay	-458	-585	-127	-21.7						
Past due loans	-127	-143	-16	-11.2						
Performing loans	8	36	-28	-77.8						
<b>Net losses/recoveries on impairment of loans</b>	<b>-1,402</b>	<b>-1,665</b>	<b>-263</b>	<b>-15.8</b>						
<b>Net adjustments to/recoveries on guarantees and commitments</b>	<b>-30</b>	<b>48</b>	<b>-78</b>							
<b>Net adjustments to loans</b>	<b>-1,432</b>	<b>-1,617</b>	<b>-185</b>	<b>-11.4</b>						

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

The reduction of adjustments to loans on an annual basis continues, while still increasing the coverage of the total non-performing assets and reducing the incidence of non-performing loans on total loans; the cost of credit, expressed as the ratio of net adjustments to net loans, decreased to 78 bps from 102 bps in the previous financial year and 90 bps in the first half of 2016. Due to the lower impairment losses on non-performing assets, which offset the absence of recoveries on the allowance for guarantees and commitments, net adjustments to loans amounted to 1,432 million euro, posting a reduction of 11.4% on an annual basis. Bad loans required total net adjustments of 825 million euro, compared to 973 million euro in the first half of 2016, with an average coverage ratio of 60.7%. Net impairment losses on unlikely to pay loans, totalling 458 million euro, dropped by 127 million euro compared to the same period of 2016, with a coverage ratio of 28%. Net impairment losses on past due loans amounted to 127 million euro, with a coverage ratio of 21.3%. The coverage ratio for forborne positions within the non-performing loans category was 32.2% at the end of June 2017. Lastly, the generic reserve offers a stable coverage ratio of 0.5% for the ordinary risk inherent in the performing loans portfolio.

	2017		Changes	
	Second quarter	First quarter	amount	%
Bad loans	-431	-394	37	9.4
Unlikely to pay	-197	-261	-64	-24.5
Past due loans	-55	-72	-17	-23.6
Performing loans	-25	33	-58	
<b>Net losses/recoveries on impairment of loans</b>	<b>-708</b>	<b>-694</b>	<b>14</b>	<b>2.0</b>
<b>Net adjustments to/recoveries on guarantees and commitments</b>	<b>-29</b>	<b>-1</b>	<b>28</b>	
<b>Net adjustments to loans</b>	<b>-737</b>	<b>-695</b>	<b>42</b>	<b>6.0</b>

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

Adjustments to loans in the second quarter of 2017 rose with respect to the first, mainly due to greater adjustments to bad loans and to guarantees and commitments.

**Net provisions and net impairment losses on other assets**

	30.06.2017	30.06.2016	Changes		Net provisions and net impairment losses on other assets					
			amount	%						
Net provisions	-38	-113	-75	-66.4						
Net impairment losses on other assets	-22	-127	-105	-82.7						
<b>Net provisions and net impairment losses on ot</b>	<b>-60</b>	<b>-240</b>	<b>-180</b>	<b>-75.0</b>						

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

Within the new layout of the reclassified income statement, this caption consists of the net provisions for risks and charges and net impairment losses on other assets. Both components recorded a decline: in the first half of the current financial year the net provisions for risks and charges amounted to 38 million euro, compared to 113 million euro in the first half of 2016; net impairment losses on other assets (financial assets available for sale and property and equipment and intangible assets) recorded a balance of -22 million euro, also in decline compared to the same period of 2016, when it amounted to -127 million euro, thanks to lower impairment on equities and equity investments.

	(millions of euro)			
	2017		Changes	
	Second quarter	First quarter	amount	%
Net provisions	-37	-1	36	
Net impairment losses on other assets	-20	-2	18	
<b>Net provisions and net impairment losses on other assets</b>	<b>-57</b>	<b>-3</b>	<b>54.0</b>	

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

With reference to the quarterly analysis, both the net provisions for risks and charges and net impairment losses on other assets in the second quarter of 2017 are higher compared to the first quarter of the current year.

#### **Other income (expenses)**

In this caption of the reclassified income statement, the "realised profits (losses) on investments held to maturity and on other investments" are aggregated together with other income and expenses not strictly linked to operations. In the first half of 2017, other net income amounted to 3,813 million euro, of which 3,500 million euro related to the public contribution received to offset the impact on the capital ratios and such as to ensure a phased-in Common Equity Tier 1 Ratio of 12.5% of the risk-weighted assets (RWA) included in the acquired segregated scope of Banca Popolare di Vicenza and Veneto Banca. Net of this contribution, revenues amounted to 313 million euro, compared to the 201 million euro recorded in the first six months of 2016. In the period under review, the positive effect was recorded deriving from the disposal of a stake in NTV and the fair value measurement following the reclassification of both the remaining equity investment held in NTV and the investment in Bank of Qingdao, no longer included under entities subject to significant influence. The NTV transaction was overseen by the Structured Finance team of Banca IMI, as part of the core business of the Corporate and Investment Banking Division.

#### **Income (Loss) from discontinued operations**

No income or loss from discontinued operations was recognised in the half year, while 48 million euro were recorded in the first half of 2016, referring to the ordinary profit of the companies Setefi and ISP Card subject to transfer in the last quarter of the previous year.

#### **Gross income**

Income before tax from continuing operations and net of the aforementioned public contribution of 3,500 million euro was 3,164 million euro, up 12.3% compared to the 2,818 million euro posted in the same period of 2016.

#### **Income tax**

Current and deferred taxes came to 889 million euro. The tax rate dropped drastically to 13.3% following the non-taxable public contribution; excluding this contribution the tax rate would be on the same levels as in the first six months of 2016, standing at 28.1%.

#### **Charges (net of tax) for integration and exit incentives**

The caption amounts to 53 million euro, slightly higher than the value recorded in the first half of 2016. This reclassified income statement caption also includes - net of the relevant tax effect - the additional public contribution of 1.285 billion euro received to cover the integration and rationalisation charges relating to the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca. The same caption also includes the specific provision for risks and charges, net of the relevant deferred tax assets. Consequently, the aforementioned contribution had no impact on the caption and on the income statement for the first half year.

#### **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 2017, these costs amounted to 11 million euro, confirming the declining trend already observed in previous periods.

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

The caption includes the expenses imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In the first half of 2017, levies and other charges concerning the banking industry, net of tax, amounted to 460 million euro, significantly up compared to the 113 million euro recorded in the corresponding period of last year, and included 301 million euro for the impairment of the investment in the Atlante Fund established to tackle the banking crises, 114 million euro of ordinary contributions to the European resolution fund for the full 2017 financial year, 10 million euro for contributions to the deposit guarantee scheme of some international subsidiaries and 35 million euro of charges as a result of the compulsory administrative liquidation of Banca Popolare di Vicenza and Veneto Banca.

#### **Minority interests**

Minority interests, amounting to 13 million euro, down compared to the 98 million in the first half of 2016, mainly refer to the income from the Group's indirect international investments.

### **Net income (loss)**

As a result of the above trends, the Group closed the first six months of 2017 with net income of 1,738 million euro (excluding the effect of the public contribution of 3,500 million euro as a result of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca). This result was driven by the performance of net fee and commission income, other income and lower provisions and adjustments to loans, and was negatively impacted by increased expenses to support the stability of the banking system.

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# 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 aggregations and reclassifications have been made 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.

The balance sheet as at 30 June 2017 includes the acquisition, effective from 26 June 2017, of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca. As indicated in greater detail in the chapter on Accounting Policies, the scope of assets and liabilities considered for the purposes of the Half-yearly Report as at 30 June 2017 and all associated values should be considered provisional in nature until the relative due diligence activities are completed. In fact, the acquisition contract envisages the appointment of a board of three independent experts, identified pursuant to the Decree Law on the Venetian Banks, which will conduct a specific due diligence leading to the generation of a detailed and analytic inventory of the captions comprising the final accounting position of assets and liabilities included within the segregated scope acquired as at the execution date. Considering the particular case in question, no adjustments were made to the historic data in the reclassified Balance sheet in order to retroactively reflect the effects of the acquisition. Consequently, the comments indicated in the Report on operations refer to the balance sheet figures net of the segregated scope acquired, unless otherwise specified. However, in order to improve the reader's understanding, the main amounts subject to acquisition and the consolidated figure including said amounts are highlighted in the tables.

Breakdowns of restatements, aggregations and reclassifications carried out, as well as of the assets and liabilities within the segregated scope of acquisition, 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.

Other assets include the imbalance between assets and liabilities acquired from Banca Popolare di Vicenza and Veneto Banca. The figure as at 30 June 2017 amounts to 4,285 million euro and refers solely to the scope subject to consolidation, which does not include the acquired investments of the two Venetian banks.

As indicated, once the final amount of the imbalance has been calculated following the due diligence, it will be offset by a loan of equal amount disbursed by Intesa Sanpaolo to the banks in liquidation and guaranteed by the government up to 6,351 million euro.

**Reclassified balance sheet**

(millions of euro)

Assets	30.06.2017			31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of the assets acquired (b)	Consolidated figure net of the assets acquired (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)	
Financial assets held for trading	44,415	2,065	42,350	43,613	-1,263	-2.9	
<i>of which: Insurance Companies</i>	486	-	486	514	-28	-5.4	
Financial assets designated at fair value through profit and loss	70,018	6	70,012	63,865	6,147	9.6	
<i>of which: Insurance Companies</i>	68,961	-	68,961	62,743	6,218	9.9	
Financial assets available for sale	144,562	4,464	140,098	146,692	-6,594	-4.5	
<i>of which: Insurance Companies</i>	78,174	-	78,174	79,286	-1,112	-1.4	
Investments held to maturity	2,305	1,103	1,202	1,241	-39	-3.1	
Due from banks	78,147	6,065	72,082	53,146	18,936	35.6	
Loans to customers	393,517	24,428	369,089	364,713	4,376	1.2	
Investments in associates and companies subject to joint control	1,282	583	699	1,167	-468	-40.1	
Property, equipment and intangible assets	12,425	240	12,185	12,301	-116	-0.9	
Tax assets	15,951	1,469	14,482	14,444	38	0.3	
Non-current assets held for sale and discontinued operations	427	-	427	423	4	0.9	
Other assets	24,969	5,641	19,328	23,495	-4,167	-17.7	
<b>Total Assets</b>	<b>788,018</b>	<b>46,064</b>	<b>741,954</b>	<b>725,100</b>	<b>16,854</b>	<b>2.3</b>	
Liabilities and Shareholders' Equity	30.06.2017			31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of the liabilities acquired (b)	Consolidated figure net of the liabilities acquired (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)	
Due to banks	101,450	12,040	89,410	72,641	16,769	23.1	
Due to customers and securities issued	406,017	29,726	376,291	386,659	-10,368	-2.7	
<i>of which: Insurance Companies</i>	1,339	-	1,339	1,295	44	3.4	
Financial liabilities held for trading	42,517	1,437	41,080	44,790	-3,710	-8.3	
<i>of which: Insurance Companies</i>	68	-	68	86	-18	-20.9	
Financial liabilities designated at fair value through profit and loss	63,017	190	62,827	57,187	5,640	9.9	
<i>of which: Insurance Companies</i>	62,823	-	62,823	57,184	5,639	9.9	
Tax liabilities	1,972	100	1,872	2,038	-166	-8.1	
Liabilities associated with non-current assets held for sale and discontinued operations	268	-	268	272	-4	-1.5	
Other liabilities	29,086	2,413	26,673	21,745	4,928	22.7	
Technical reserves	83,593	-	83,593	85,619	-2,026	-2.4	
Allowances for specific purpose	6,577	158	6,419	4,830	1,589	32.9	
Share capital	8,732	-	8,732	8,732	-	-	
Reserves	36,930	-	36,930	36,805	125	0.3	
Valuation reserves	-1,838	-	-1,838	-1,854	-16	-0.9	
Equity instruments	4,102	-	4,102	2,117	1,985	93.8	
Minority interests	357	-	357	408	-51	-12.5	
Net income (loss)	5,238	-	5,238	3,111	2,127	68.4	
<b>Total Liabilities and Shareholders' Equity</b>	<b>788,018</b>	<b>46,064</b>	<b>741,954</b>	<b>725,100</b>	<b>16,854</b>	<b>2.3</b>	

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

## Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	30.06.2017			2017		2016		
	Consolidated figure (a)	Of which: figure of the assets acquired (b)	Consolidated figure net of the assets acquired (c) = (a) - (b)	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading <i>of which: Insurance Companies</i>	44,415 486	2,065 -	42,350 486	44,484 498	43,613 514	50,232 524	52,499 648	54,786 721
Financial assets designated at fair value through profit and loss <i>of which: Insurance Companies</i>	70,018 68,961	6 -	70,012 68,961	67,438 66,330	63,865 62,743	61,338 60,187	57,948 56,908	54,480 53,358
Financial assets available for sale <i>of which: Insurance Companies</i>	144,562 78,174	4,464 -	140,098 78,174	150,000 78,916	146,692 79,286	146,885 80,792	152,465 80,379	142,816 78,393
Investments held to maturity	2,305	1,103	1,202	1,229	1,241	1,231	1,246	1,317
Due from banks	78,147	6,065	72,082	58,897	53,146	37,528	36,879	33,540
Loans to customers	393,517	24,428	369,089	366,648	364,713	364,836	360,240	358,478
Investments in associates and companies subject to joint control	1,282	583	699	736	1,167	1,253	1,266	1,281
Property, equipment and intangible assets	12,425	240	12,185	12,205	12,301	12,108	12,116	12,114
Tax assets	15,951	1,469	14,482	14,343	14,444	14,163	14,398	14,583
Non-current assets held for sale and discontinued operations	427	-	427	431	423	906	1,100	3,671
Other assets	24,969	5,641	19,328	23,042	23,495	23,917	27,135	23,297
<b>Total Assets</b>	<b>788,018</b>	<b>46,064</b>	<b>741,954</b>	<b>739,453</b>	<b>725,100</b>	<b>714,397</b>	<b>717,292</b>	<b>700,363</b>
Liabilities and Shareholders' Equity	30.06.2017			2017		2016		
	Consolidated figure (a)	Of which: figure of the liabilities acquired (b)	Consolidated figure net of the liabilities acquired	31/3	31/12	30/9	30/6	31/3
Due to banks	101,450	12,040	89,410	92,584	72,641	69,641	67,656	60,343
Due to customers and securities issued <i>of which: Insurance Companies</i>	406,017 1,339	29,726 -	376,291 1,339	377,356 1,331	386,659 1,295	372,372 1,320	379,643 1,362	373,224 1,361
Financial liabilities held for trading <i>of which: Insurance Companies</i>	42,517 68	1,437 -	41,080 68	43,360 78	44,790 86	48,143 117	49,340 104	48,936 95
Financial liabilities designated at fair value through profit and loss <i>of which: Insurance Companies</i>	63,017 62,823	190 -	62,827 62,823	60,562 60,559	57,187 57,184	54,373 54,373	51,360 51,360	48,031 48,031
Tax liabilities	1,972	100	1,872	2,084	2,038	2,235	2,186	2,564
Liabilities associated with non-current assets held for sale and discontinued operations	268	-	268	273	272	413	336	350
Other liabilities	29,086	2,413	26,673	23,001	21,745	25,939	26,798	25,181
Technical reserves	83,593	-	83,593	84,405	85,619	87,370	86,813	86,664
Allowances for specific purpose	6,577	158	6,419	4,737	4,830	5,049	4,987	4,792
Share capital	8,732	-	8,732	8,732	8,732	8,732	8,732	8,732
Reserves	36,930	-	36,930	39,903	36,805	36,774	36,830	39,184
Valuation reserves	-1,838	-	-1,838	-2,159	-1,854	-1,737	-1,860	-1,387
Equity instruments	4,102	-	4,102	3,358	2,117	2,118	2,118	2,118
Minority interests	357	-	357	356	408	640	646	825
Net income (loss)	5,238	-	5,238	901	3,111	2,335	1,707	806
<b>Total Liabilities and Shareholders' Equity</b>	<b>788,018</b>	<b>46,064</b>	<b>741,954</b>	<b>739,453</b>	<b>725,100</b>	<b>714,397</b>	<b>717,292</b>	<b>700,363</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

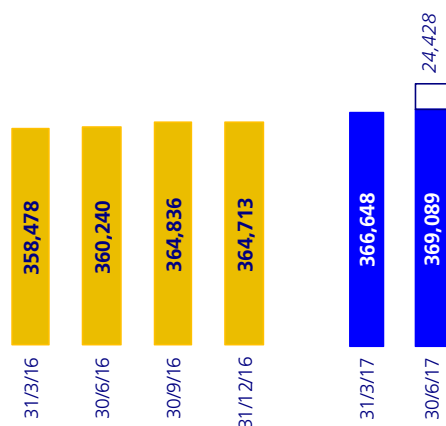
As at 30 June 2017, the consolidated assets and liabilities of the Intesa Sanpaolo Group highlighted a 2.3% increase compared to 31 December 2016. The assets side recorded an increase in loans to banks and customers. Among liabilities, the decline in amounts due to customers and securities issued, financial liabilities held for trading and technical reserves was widely offset by the increase in amounts due to banks, financial liabilities designated at fair value through profit and loss attributable to the Group's insurance companies and other liability items.

The total balance sheet value, including the assets and liabilities of Banca Popolare di Vicenza and Veneto Banca acquired with effective date on 26 June, amounts to 788 billion euro.

## Loans to customers

	30.06.2017				31.12.2016		(millions of euro) Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
Current accounts	24,105	3,104	21,001	5.7	21,142	5.8	-141	-0.7
Mortgages	164,801	16,635	148,166	40.1	145,342	39.8	2,824	1.9
Advances and other loans	135,355	4,400	130,955	35.5	124,099	34.0	6,856	5.5
<b>Commercial banking loans</b>	<b>324,261</b>	<b>24,139</b>	<b>300,122</b>	<b>81.3</b>	<b>290,583</b>	<b>79.6</b>	<b>9,539</b>	<b>3.3</b>
<b>Repurchase agreements</b>	<b>28,155</b>	<b>86</b>	<b>28,069</b>	<b>7.6</b>	<b>29,940</b>	<b>8.2</b>	<b>-1,871</b>	<b>-6.2</b>
<b>Loans represented by securities</b>	<b>13,299</b>	<b>203</b>	<b>13,096</b>	<b>3.6</b>	<b>14,423</b>	<b>4.0</b>	<b>-1,327</b>	<b>-9.2</b>
<b>Non-performing loans</b>	<b>27,802</b>	<b>-</b>	<b>27,802</b>	<b>7.5</b>	<b>29,767</b>	<b>8.2</b>	<b>-1,965</b>	<b>-6.6</b>
<b>Loans to customers</b>	<b>393,517</b>	<b>24,428</b>	<b>369,089</b>	<b>100.0</b>	<b>364,713</b>	<b>100.0</b>	<b>4,376</b>	<b>1.2</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

 Quarterly development  
Loans to customers


As at 30 June 2017, Intesa Sanpaolo Group loans to customers reached 369 billion euro, up 1.2% compared to the end of the previous year. Including the contribution of Banca Popolare di Vicenza and Veneto Banca, loans amount to approximately 394 billion euro.

The positive performance of loans was driven by commercial banking loans (+9.5 billion, or +3.3%), while reverse repurchase agreements were down (-1.9 billion), particularly with regard to institutional counterparties, along with non-performing loans (-2 billion) and loans represented by securities (-1.3 billion). The recovery in commercial banking loans, which benefited from the improvement in the economy, is attributable to the increase in advances and loans (+6.9 billion euro, or +5.5%) and mortgages (+2.8 billion euro, or +1.9%). Given the favourable market conditions for customers, increases were observed not only in consumer credit and mortgage loans for home purchase for individual customers, but also in loans to businesses aimed at financing investments and working capital.

In the domestic medium-/long-term loan market, disbursements to households in the first half of 2017 (including the small business accounts having similar needs to family businesses) exceeded 10 billion euro, while disbursements to businesses under the Banca dei Territori

scope (including customers with turnover of up to 350 million euro) amounted to over 8 billion euro. During the same period, medium-/long-term disbursements to segments included in the scope of the Corporate Division exceeded 6 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy reached 25.2 billion euro. On the whole, medium-/long-term disbursements for the Group in the first half of 2017 were approximately 35 billion euro.

As at 30 June 2017, the Group's share of the domestic market was estimated at 16% for total loans and rose to 17.1% when including loans to customers of Banca Popolare di Vicenza and Veneto Banca, acquired on 26 June 2017. 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)		Business areas
	30.06.2017	31.12.2016	Changes amount	%	
Banca dei Territori	218,328				
Banca dei Territori (excluding operations acquired)	193,900	188,317	5,583	3.0	
Corporate and Investment Banking	102,185	98,183	4,002	4.1	
International Subsidiary Banks	27,617	26,492	1,125	4.2	
Private Banking	9,153	9,597	-444	-4.6	
Asset Management	279	298	-19	-6.4	
Insurance	22	26	-4	-15.4	
<b>Total business areas</b>	<b>357,584</b>				
<b>Total business areas (excluding operations acquired)</b>	<b>333,156</b>	<b>322,913</b>	<b>10,243</b>	<b>3.2</b>	
Corporate Centre	35,933	41,800	-5,867	-14.0	
<b>Intesa Sanpaolo Group</b>	<b>393,517</b>				
<b>Intesa Sanpaolo Group (excluding operations acquired)</b>	<b>369,089</b>	<b>364,713</b>	<b>4,376</b>	<b>1.2</b>	

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

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, made the biggest contribution in absolute terms, recording an increase (+5.6 billion euro, or +3%) compared to the end of last year, due essentially to medium-/long-term loans to individuals (households and personal loans) and to companies. Corporate and Investment Banking loans also showed favourable performance (+4 billion, or +4.1%), also due to increased operations in repurchase agreements by Banca IMI and to the higher loans by Intesa Sanpaolo Bank Luxembourg, as well as those by the International Subsidiary Banks (+4.2%), specifically those disbursed by subsidiaries operating in Slovakia, Hungary and Croatia. Conversely, Private Banking loans are down (-4.6%), due to the decrease in repurchase agreement transactions with institutional customers, along with those of Asset Management (-6.4%) and Insurance (-15.4%), whose overall volume is small. The decline in Corporate Centre loans (-14%) is largely attributable to a decrease in reverse repurchase agreements with Cassa di Compensazione e Garanzia, as well as to the decline in the stock of bad loans managed by the Capital Light Bank.

Please note that the acquired balances of Banca Popolare di Vicenza and Veneto Banca (24.4 billion euro) were temporarily allocated as a whole to the Banca dei Territori Division and will be allocated based on the progress of the integration process, the conclusion of which is envisaged in 2018.

## Loans to customers: credit quality

	(millions of euro)						
	30.06.2017				31.12.2016		Change Net exposure (e) = (c) - (d)
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	
Bad loans	13,920	-	13,920	3.8	14,895	4.1	-975
Unlikely to pay	13,546	-	13,546	3.6	14,435	4.0	-889
Past due loans	336	-	336	0.1	437	0.1	-101
<b>Non-performing loans</b>	<b>27,802</b>	<b>-</b>	<b>27,802</b>	<b>7.5</b>	<b>29,767</b>	<b>8.2</b>	<b>-1,965</b>
<b>of which forborne</b>	<b>7,835</b>	<b>-</b>	<b>7,835</b>		<b>8,204</b>		<b>-369</b>
Performing loans	352,416	24,225	328,191	88.9	320,523	87.8	7,668
of which forborne	7,548	860	6,688		7,828		-1,140
Loans represented by performing securities	13,299	203	13,096	3.6	14,423	4.0	-1,327
of which forborne	93	-	93		96		-3
<b>Loans to customers</b>	<b>393,517</b>	<b>24,428</b>	<b>369,089</b>	<b>100.0</b>	<b>364,713</b>	<b>100.0</b>	<b>4,376</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

As at 30 June 2017, the Group's non-performing loans, net of adjustments, came to 27.8 billion euro, below the levels of the end of 2016 (-6.6%) confirming the gradual decrease shown during the last year. Compared to the end of December 2016, there was also a decrease in non-performing assets as a percentage of total net loans to customers, down to 7.5% from 8.2% at the end of 2016. This percentage decreases further, to 7.1% when including loans to customers of Banca Popolare di Vicenza and Veneto Banca.

In further detail, bad loans came to 13.9 billion euro, net of adjustments, at the end of the first half of 2017, down (-6.5%) from the beginning of the year, also based on the write-offs and sales carried out, and represented 3.8% of total loans (3.5% including the two Venetian banks), compared to 4.1% at the end of 2016. During the same period, the coverage ratio was 60.7% (60.6%

in December 2016). Loans included in the unlikely to pay category amounted to 13.6 billion euro, down by 6.2%, accounting for 3.6% of total loans to customers (3.4% including the two Venetian banks), with a coverage ratio of 28% (26.9% in December 2016). Past due loans amounted to 336 million euro, down 23.1% since the beginning of the year, with a coverage ratio of 21.3%. 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 due to financial difficulty by the debtor) at the European level. Within the non-performing loan category, forborne exposures amounted to 7.8 billion euro, with an average coverage ratio of 32.2%, whereas those in the performing loan category were slightly lower (6.7 billion euro). The overall coverage ratio of performing loans was 0.5%.

## Customer financial assets

	30.06.2017				31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
	(millions of euro)							
Direct deposits from banking business	412,048	29,916	382,132	43.9	393,798	45.6	-11,666	-3.0
Direct deposits from insurance business and technical reserves	147,755	-	147,755	17.0	144,098	16.7	3,657	2.5
Indirect customer deposits	506,221	19,902	486,319	55.9	468,855	54.2	17,464	3.7
Netting (*)	-146,416	-	-146,416	-16.8	-142,803	-16.5	3,613	2.5
<b>Customer financial assets</b>	<b>919,608</b>	<b>49,818</b>	<b>869,790</b>	<b>100.0</b>	<b>863,948</b>	<b>100.0</b>	<b>5,842</b>	<b>0.7</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

(\*) 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 2017, customer financial assets amounted to 870 billion euro, up 0.7% compared to the beginning of the year due to the increase in indirect deposits, growing 17.5 billion euro, and to a lesser extent direct deposits from insurance business, which offset the drop in direct deposits from banking business, which is related to the maturity of bonds of institutional customers and the investment of a part of liquidity held as deposits in asset management products. Including direct and indirect deposits of Banca Popolare di Vicenza and Veneto Banca, the total amount is 920 billion euro.

### Direct deposits from banking business

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

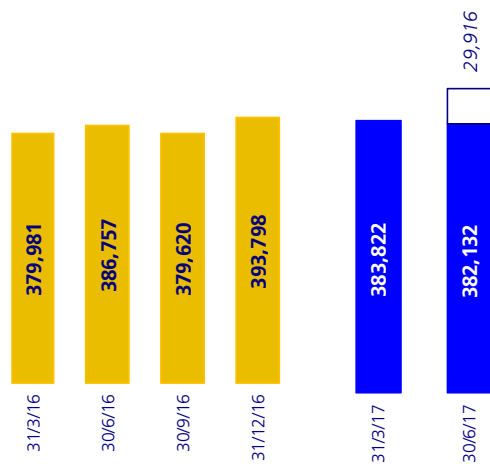
	30.06.2017				31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
	(millions of euro)							
Current accounts and deposits	266,095	12,646	253,449	64.6	257,733	65.5	-4,284	-1.7
Repurchase agreements and securities lending	25,327	1,656	23,671	6.1	24,561	6.2	-890	-3.6
Bonds	78,735	11,990	66,745	19.1	73,214	18.6	-6,469	-8.8
<i>of which designated at fair value (*)</i>	190	190	-	-	-	-	-	-
Certificates of deposit	4,063	6	4,057	1.0	3,933	1.0	124	3.2
Subordinated liabilities	13,457	-	13,457	3.3	13,813	3.5	-356	-2.6
Other deposits	24,371	3,618	20,753	5.9	20,544	5.2	209	1.0
<i>of which designated at fair value (**)</i>	7,180	-	7,180	1.7	8,434	2.1	-1,254	-14.9
<b>Direct deposits from banking business</b>	<b>412,048</b>	<b>29,916</b>	<b>382,132</b>	<b>100.0</b>	<b>393,798</b>	<b>100.0</b>	<b>-11,666</b>	<b>-3.0</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

(\*) 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.

**Quarterly development**  
**Direct deposits from banking business**



The total of direct deposits from banking business, exceeding 382 billion euro, was down 3% compared to the end of December 2016, with diverging performances by the main deposit types.

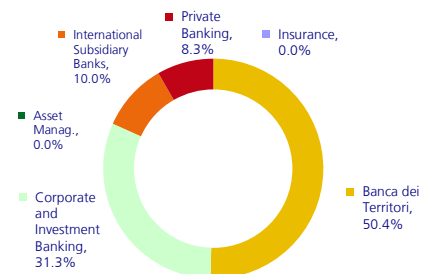
In particular, there was a reduction in bonds (-6.5 billion euro, or -8.8%), current accounts and deposits (-4.3 billion euro, or -1.7%) and, to a lesser extent, repurchase agreements (-0.9 billion euro, or -3.6%) and subordinated liabilities (-0.4 billion euro, or -2.6%). Certificates of deposits recorded small increases, attributable to the international subsidiaries, while other deposits increased slightly thanks to commercial papers.

At the end of June 2017, the market share of the Group's direct deposits on the domestic market, consisting of deposits and bonds, was estimated at 16.4%, rising to 17.8% when including the deposits of Banca Popolare di Vicenza and Veneto Banca acquired on 26 June. 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.

Total direct deposits, including the contribution of Banca Popolare di Vicenza and Veneto Banca, amount to 412 billion euro.

	30.06.2017	31.12.2016	Changes	
			amount	%
Banca dei Territori	201,484			
Banca dei Territori <i>(excluding operations acquired)</i>	171,568	173,599	-2,031	-1.2
Corporate and Investment Banking	106,628	112,661	-6,033	-5.4
International Subsidiary Banks	34,158	32,978	1,180	3.6
Private Banking	28,395	27,540	855	3.1
Asset Management	7	8	-1	-12.5
Insurance	-	-	-	-
<b>Total business areas</b>	<b>370,672</b>			
<b>Total business areas</b> <i>(excluding operations acquired)</i>	<b>340,756</b>	<b>346,786</b>	<b>-6,030</b>	<b>-1.7</b>
Corporate Centre	41,376	47,012	-5,636	-12.0
<b>Intesa Sanpaolo Group</b>	<b>412,048</b>			
<b>Intesa Sanpaolo Group</b> <i>(excluding operations acquired)</i>	<b>382,132</b>	<b>393,798</b>	<b>-11,666</b>	<b>-3.0</b>

**Business areas**



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

The breakdown by Group business areas shows that Banca dei Territori, which accounts for half of the aggregate attributable to the Group's total business areas, recorded a drop of 2 billion euro (-1.2%) since the end of December 2016, due to bonds. Corporate and Investment Banking deposits were down as well (-5.4%), due to the declining trend in amounts due to customers of the Global Corporate Department, the International Department and Banca IMI, as well as due to securities issued, specifically those of the Financial Institutions Department and certificates of Banca IMI. On the other hand, there were improvements in the funding of Private Banking (+3.1%), primarily as a result of current account deposits and repurchase agreements, and of the International Subsidiary Banks (+3.6%), both in amounts due to customers and securities issued. The funding for the Corporate Centre decreased (-12%) compared to the end of 2016, due to reduction of transactions with institutional customers.

Please note that the acquired balances of Banca Popolare di Vicenza and Veneto Banca (29.9 billion euro) were temporarily allocated as a whole to the Banca dei Territori Division and will be allocated based on the progress of the integration process, the conclusion of which is envisaged in 2018.

**Direct deposits from insurance business and technical reserves**

(millions of euro)

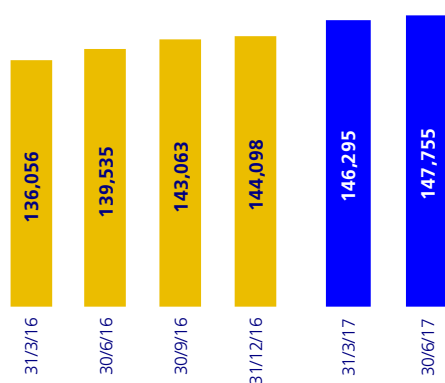
	30.06.2017		31.12.2016		Changes	
	breakdown	%	breakdown	%	amount	%
<b>Financial liabilities of the insurance business designated at fair value (*)</b>	<b>62,823</b>	<b>42.5</b>	<b>57,184</b>	<b>39.7</b>	<b>5,639</b>	<b>9.9</b>
Index-linked products	1	-	1	-	-	-
Unit-linked products	62,822	42.5	57,183	39.7	5,639	9.9
<b>Technical reserves</b>	<b>83,593</b>	<b>56.6</b>	<b>85,619</b>	<b>59.4</b>	<b>-2,026</b>	<b>-2.4</b>
Life business	82,945	56.1	85,026	59.0	-2,081	-2.4
Mathematical reserves	72,425	49.0	73,508	51.0	-1,083	-1.5
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	5,540	3.7	5,455	3.8	85	1.6
Other reserves	4,980	3.4	6,063	4.2	-1,083	-17.9
Non-life business	648	0.5	593	0.4	55	9.3
<b>Other insurance deposits (***)</b>	<b>1,339</b>	<b>0.9</b>	<b>1,295</b>	<b>0.9</b>	<b>44</b>	<b>3.4</b>
<b>Direct deposits from insurance business and technical reserves</b>	<b>147,755</b>	<b>100.0</b>	<b>144,098</b>	<b>100.0</b>	<b>3,657</b>	<b>2.5</b>

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.

**Quarterly development  
Direct insurance deposits and technical reserves**


Direct deposits from insurance business came to 148 billion euro at the end of June 2017, up 2.5% compared to 31 December 2016. The more performing component is represented by the financial liabilities of the insurance business designated at fair value, which grew by 5.6 billion euro (+9.9%), entirely as a result of the contribution from unit-linked products. Technical reserves, which constitute the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, decreased by 2.4% since the beginning of the year, due to the decrease in mathematical reserves and other reserves of the life insurance business.

**Indirect customer deposits**

(millions of euro)

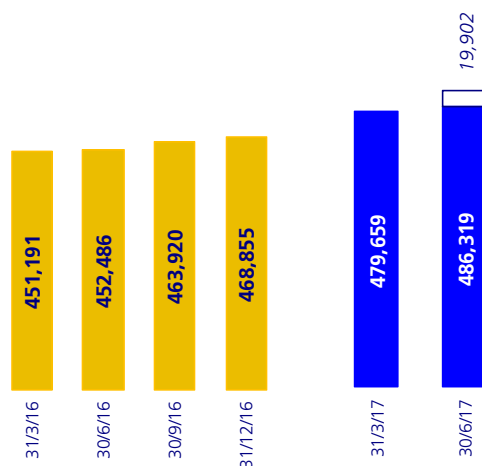
	30.06.2017				31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
Mutual funds (*)	112,878	-	112,878	23.2	105,787	22.6	7,091	6.7
Open-ended pension funds and individual pension plans	7,894	-	7,894	1.6	7,489	1.6	405	5.4
Portfolio management (**)	57,568	42	57,526	11.8	56,064	12.0	1,462	2.6
Technical reserves and financial liabilities of the insurance business	136,862	-	136,862	28.2	132,727	28.3	4,135	3.1
Relations with institutional customers	10,737	-	10,737	2.2	12,014	2.5	-1,277	-10.6
<b>Assets under management</b>	<b>325,939</b>	<b>42</b>	<b>325,897</b>	<b>67.0</b>	<b>314,081</b>	<b>67.0</b>	<b>11,816</b>	<b>3.8</b>
<b>Assets under administration and in custody</b>	<b>180,282</b>	<b>19,860</b>	<b>160,422</b>	<b>33.0</b>	<b>154,774</b>	<b>33.0</b>	<b>5,648</b>	<b>3.6</b>
<b>Indirect customer deposits</b>	<b>506,221</b>	<b>19,902</b>	<b>486,319</b>	<b>100.0</b>	<b>468,855</b>	<b>100.0</b>	<b>17,464</b>	<b>3.7</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

(\*) 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.

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

#### Quarterly development Indirect deposits



As at 30 June 2017, indirect deposits exceeded 486 billion euro, up 17.5 billion euro compared to the end of 2016 (+3.7%). Given the favourable conditions of the financial markets, the performance was determined by the increase in both assets under management, driven by insurance segment products and mutual funds, and assets under administration.

Assets under management, which account for two-thirds of the total aggregate, were up 11.8 billion euro in the half-year (+3.8%), mainly due to the high net inflows achieved by the distribution networks. Investment funds, in which investor preferences were concentrated, increased by 7.1 billion (+6.7%). Insurance products increased by 4.1 billion euro (+3.1%): during the period the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 11.4 billion euro. Pension funds and portfolio management schemes also posted growth (+5.4% and +2.6% respectively). Relations with institutional customers are the only declining component (-1.3 billion euro).

Assets under administration recorded an increase (+5.6 billion euro, equal to +3.6%) attributable to dealings with institutional customers and securities and third-party products in customer portfolios.

Indirect deposits of the Intesa Sanpaolo Group, including the contribution of Banca Popolare di Vicenza and Veneto Banca, exceeded 506 billion at the end of the half year. The contribution of the two Venetian banks amounted to approximately 20 billion euro, of which 11 billion in securities and 9 billion in third-party asset management products.

## Financial assets and liabilities

(millions of euro)

	30.06.2017				31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	of which Insurance Companies	Consolidated figure (d)	of which Insurance Companies	amount (e) = (c) - (d)	% (e) / (d)
Financial assets held for trading	44,415	2,065	42,350	486	43,613	514	-1,263	-2.9
<i>of which derivatives at fair value</i>	28,240	1,932	26,308	7	30,220	12	-3,912	-12.9
Financial assets designated at fair value through profit and loss	70,018	6	70,012	68,961	63,865	62,743	6,147	9.6
Financial assets available for sale	144,562	4,464	140,098	78,174	146,692	79,286	-6,594	-4.5
Investments held to maturity	2,305	1,103	1,202	-	1,241	-	-39	-3.1
<b>Total financial assets</b>	<b>261,300</b>	<b>7,638</b>	<b>253,662</b>	<b>147,621</b>	<b>255,411</b>	<b>142,543</b>	<b>-1,749</b>	<b>-0.7</b>
<b>Financial liabilities held for trading (*)</b>	<b>-35,341</b>	<b>-1,437</b>	<b>-33,904</b>	<b>-68</b>	<b>-36,359</b>	<b>-86</b>	<b>-2,455</b>	<b>-6.8</b>
<i>of which derivatives at fair value</i>	-28,961	-1,437	-27,524	-68	-32,201	-86	-4,677	-14.5

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

(\*) 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 were down by 0.7% during the half year, following a generalised decline in all components, except for financial assets designated at fair value, which recorded an increase (+6.1 billion, or +9.6%), essentially due to equities and units of UCI attributable to insurance companies. Among the other components, financial assets available for sale showed a decline of 6.6 billion euro (-4.5%), and financial assets held for trading recorded a decrease as well (-2.9% compared to December 2016), due to the decline in derivative contracts (-12.9%), not sufficiently offset by growth in bonds and other debt securities. Financial liabilities held for trading also declined during the half year (-2.5 billion euro, or -6.8%), due to derivative contracts.

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

(millions of euro)

	30.06.2017				31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	of which Insurance Companies	Consolidated figure (d)	of which Insurance Companies	amount (e) = (c) - (d)	% (e) / (d)
Bonds and other debt securities held for trading and designated at fair value through profit and loss	19,163	138	19,025	3,967	16,377	3,963	2,648	16.2
<i>of which designated at fair value (fair value option)</i>	4,677	6	4,671	3,739	4,704	3,710	-33	-0.7
Equities and quotas of UCI held for trading and designated at fair value through profit and loss	66,351	1	66,350	64,806	60,580	58,990	5,770	9.5
<i>of which designated at fair value (fair value option)</i>	64,662	-	64,662	64,555	58,860	58,741	5,802	9.9
Other assets designated at fair value through profit and loss	679	-	679	667	301	292	378	
<b>Securities, assets held for trading and financial assets designated at fair value through profit and loss</b>	<b>86,193</b>	<b>139</b>	<b>86,054</b>	<b>69,440</b>	<b>77,258</b>	<b>63,245</b>	<b>8,796</b>	<b>11.4</b>
<b>Financial liabilities held for trading (*)</b>	<b>-6,380</b>	<b>-</b>	<b>-6,380</b>	<b>-</b>	<b>-4,158</b>	<b>-</b>	<b>2,222</b>	<b>53.4</b>
Net value of financial derivatives	-656	495	-1,151	-59	-1,930	-71	-779	-40.4
Net value of credit derivatives	-65	-	-65	-2	-51	-3	14	27.5
<b>Net value of trading derivatives</b>	<b>-721</b>	<b>495</b>	<b>-1,216</b>	<b>-61</b>	<b>-1,981</b>	<b>-74</b>	<b>-765</b>	<b>-38.6</b>
<b>Financial assets / liabilities, net</b>	<b>79,092</b>	<b>634</b>	<b>78,458</b>	<b>69,379</b>	<b>71,119</b>	<b>63,171</b>	<b>7,339</b>	<b>10.3</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

(\*) 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 amounted to 78 billion euro, up 10.3% in the half year. This trend was determined largely by the increase in the stock of equities and units of UCI. Financial liabilities held for trading increased by 2.2 billion euro.

**Financial assets available for sale**

	30.06.2017				31.12.2016		Changes	
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	of which Insurance Companies	Consolidated figure (d)	of which Insurance Companies	amount (e) = (c) - (d)	% (e) / (d)
Bonds and other debt securities	129,182	4,434	124,748	68,058	131,571	69,452	-6,823	-5.2
Equities and quotas of UCI	15,329	1	15,328	10,116	15,098	9,834	230	1.5
<b>Securities available for sale</b>	<b>144,511</b>	<b>4,435</b>	<b>140,076</b>	<b>78,174</b>	<b>146,669</b>	<b>79,286</b>	<b>-6,593</b>	<b>-4.5</b>
<b>Loans available for sale</b>	<b>51</b>	<b>29</b>	<b>22</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>-1</b>	<b>-4.3</b>
<b>Financial assets available for sale</b>	<b>144,562</b>	<b>4,464</b>	<b>140,098</b>	<b>78,174</b>	<b>146,692</b>	<b>79,286</b>	<b>-6,594</b>	<b>-4.5</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

Financial assets available for sale amounted to 140 billion euro, down 4.5% compared to the figure recorded as at 31 December 2016.

The caption consists primarily of bonds and other debt securities not held for trading and, to a lesser extent, equities and units of UCI. 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 2017, 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.

Type of financial instrument	Previous portfolio	New portfolio	Book value at 30.06.2017	Fair value at 30.06.2017	(millions of euro)			
					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	240	219	6	4	-2	4
Debt securities	Financial assets available for sale	Loans	4,789	3,987	59	60	-33	69
Loans	Financial assets available for sale	Loans	6	6	-	-	-	-
<b>TOTAL</b>			<b>5,035</b>	<b>4,212</b>	<b>65</b>	<b>64</b>	<b>-35</b>	<b>73</b>

Had the Group not reclassified the above financial assets, a total of 100 million euro in positive mark-to-market income components and about 9 million euro in other negative income components would have been recognised during the half year. No reclassifications were made in 2017.

**Net interbank position**

The net interbank position as at 30 June 2017 recorded a negative balance (-17.3 billion euro), down compared to the figure recorded at the end of 2016 (-19.5 billion euro). Amounts due to banks, equal to 89.4 billion, include a 56.7 billion exposure to the ECB, following participation in the TLTRO II refinancing operations. Including the refinancing of the two Venetian banks, the exposure to the ECB amounts to 63.8 billion euro.

## Exposure to sovereign risk by country of residence of the counterparty

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

(millions of euro)

	DEBT SECURITIES					INSURANCE COMPANIES (**)	TOTAL		LOANS
	Loans and Receivables	Financial assets available for sale	BANKING GROUP		Financial assets held for trading (*)				
			Investments held to maturity	Financial assets designated at fair value through profit and loss					
<b>EU Countries</b>	<b>6,624</b>	<b>48,922</b>	<b>1,868</b>	<b>672</b>	<b>2,335</b>	<b>53,022</b>	<b>113,443</b>	<b>15,690</b>	
Austria	-	-	4	-	201	3	208	-	
Belgium	-	313	-	-	66	5	384	-	
Bulgaria	-	-	-	-	-	60	60	-	
Croatia	7	388	2	672	64	87	1,220	1,245	
Cyprus	-	-	-	-	-	-	-	-	
Czech Republic	-	-	-	-	-	-	-	-	
Denmark	-	-	-	-	10	-	10	-	
Estonia	-	-	-	-	-	-	-	-	
Finland	-	31	-	-	55	6	92	-	
France	100	3,700	-	-	139	92	4,031	6	
Germany	-	6,006	-	-	224	749	6,979	-	
Greece	-	-	-	-	-	-	-	-	
Hungary	32	648	-	-	226	36	942	24	
Ireland	-	177	-	-	17	117	311	-	
Italy	6,249	25,500	1,435	-	1,081	50,269	84,534	13,916	
Latvia	-	11	-	-	-	-	11	47	
Lithuania	-	47	-	-	-	-	47	-	
Luxembourg	-	-	-	-	-	-	-	-	
Malta	-	-	-	-	-	-	-	-	
Netherlands	-	-	-	-	195	99	294	-	
Poland	17	50	-	-	-	19	86	-	
Portugal	17	-	-	-	-6	-	11	25	
Romania	-	79	-	-	1	165	245	-	
Slovakia	-	229	427	-	33	-	689	122	
Slovenia	-	192	-	-	-	7	199	187	
Spain	202	11,460	-	-	21	1,308	12,991	118	
Sweden	-	3	-	-	52	-	55	-	
United Kingdom	-	88	-	-	-44	-	44	-	
<b>North African Countries</b>	<b>-</b>	<b>733</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>733</b>	<b>-</b>	
Algeria	-	-	-	-	-	-	-	-	
Egypt	-	733	-	-	-	-	733	-	
Libya	-	-	-	-	-	-	-	-	
Morocco	-	-	-	-	-	-	-	-	
Tunisia	-	-	-	-	-	-	-	-	
<b>Japan</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>647</b>	<b>-</b>	<b>647</b>	<b>-</b>	

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

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

As shown in the table, which includes the amounts related to the acquired operations of Banca Popolare di Vicenza and Veneto Banca, exposure to Italian government securities totalled approximately 85 billion euro, in addition to around 14 billion euro represented by loans.

## Shareholders' equity

As at 30 June 2017, the Group's shareholders' equity, including net income for the period, came to 53,164 million euro (49,664 net of the public contribution of 3.5 billion euro related to the acquisition of the Venetian banks), compared to the 48,911 million euro at the end of the previous year. The positive change in equity was due to the issue of Additional Tier 1 equity instruments for 2 billion euro and to net income for the period, which offset the payment of dividends.



**Valuation reserves**

	Valuation reserves as at 31.12.2016	Change in the period	Valuation reserves as at 30.06.2017	(millions of euro) % breakdown
Financial assets available for sale	471	-172	299	-16.3
<i>of which: Insurance Companies</i>	503	-98	405	-22.0
Property and equipment	-	-	-	-
Cash flow hedges	-1,146	162	-984	53.6
Legally-required revaluations	348	-3	345	-18.8
Other	-1,527	29	-1,498	81.5
<b>Valuation reserves</b>	<b>-1,854</b>	<b>16</b>	<b>-1,838</b>	<b>100.0</b>

As at 30 June 2017, the negative balance of the Group's valuation reserves came to -1,838 million euro, essentially unchanged compared to the negative value at the end of December 2016 (-1,854 million euro). The changes for the period were mainly driven by the reserves for financial assets available for sale (-172 million euro) related to debt securities and cash flow hedge reserves (+162 billion euro).

**Own funds and capital ratios**

Own funds and capital ratios	30.06.2017	31.12.2016
<b>Own funds</b>		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	37,708	35,926
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,376	3,533
<b>TIER 1 CAPITAL</b>	<b>43,084</b>	<b>39,459</b>
Tier 2 capital net of regulatory adjustments	8,453	8,815
<b>TOTAL OWN FUNDS</b>	<b>51,537</b>	<b>48,274</b>
<b>Risk-weighted assets</b>		
Credit and counterparty risks	260,219	243,351
Market and settlement risk	19,249	19,199
Operational risks	20,724	19,545
Other specific risks (a)	1,507	1,823
<b>RISK-WEIGHTED ASSETS</b>	<b>301,699</b>	<b>283,918</b>
<b>% Capital ratios</b>		
Common Equity Tier 1 capital ratio	12.5%	12.7%
Tier 1 capital ratio	14.3%	13.9%
Total capital ratio	17.1%	17.0%

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

The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a.

Own Funds, risk-weighted assets and the capital ratios as at 30 June 2017 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.

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 2017 take account of the adjustments envisaged by the transitional provisions for 2017.

As at 30 June 2017, total Own Funds came to 51,537 million euro, against risk-weighted assets of 301,699 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

In January and May 2017, Intesa Sanpaolo issued two Additional Tier 1 (AT 1) equity instruments, respectively for 1.25 and 0.75 billion euro. These two issues complete the issue of 4 billion euro of Additional Tier 1 instruments envisaged in the 2014-17

Business Plan (a first issue of AT1 instruments had already been carried out in September 2015 for 1 billion dollars and a second one in January 2016 for 1.25 billion euro). The instruments issued in January and May 2017, both targeted at the international markets, have, as the issues of 2015 and 2016, characteristics in line with the provisions of CRD IV and the CRR, are perpetual (with maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be redeemed in advance by the issuer respectively after 10 and 7 years from the issue date and on every coupon payment date thereafter.

With regard to the January 2017 issue for 1.25 billion euro, the coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. With regard to the May 2017 issue for 0.75 billion euro, the issuer will pay a fixed-rate coupon of 6.25% per annum, payable semi-annually in arrears on 16 May and 16 November of each year, with first coupon payment on 16 November 2017. For both issues, if the early redemption option is not exercised on 11 January 2027 and 16 May 2024, respectively, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.

Common Equity Tier 1 capital includes the 3.5 billion euro public contribution received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios; this amount was recognised in the income statement for the first half of 2017 and shall not be considered as a distributable amount. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the relative 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 the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017 based on the overall objective of 10 billion euro in cumulative cash dividends as indicated in the 2014-2017 Business Plan.

With regard to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, please note that, in calculating the Group's prudential ratios as at 30 June 2017, risk-weighted assets of the acquired segregated scope were taken into consideration, while the subsidiaries included within the segregated scope of the sale contract were not subject to consolidation, pending the issuance of authorisation provisions for inclusion in the banking Group, but were considered among the elements deducted from Own funds.

Based on the foregoing, the Total capital ratio was 17.1%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.5%.

You are reminded that, on 12 December 2016, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2017, in light of the results of the Supervisory Review and Evaluation Process (SREP). The capital requirement at consolidated level in terms of Common Equity Tier 1 ratio is 7.25% under the transition arrangements in force for 2017 and 9.25% on a fully loaded basis.

### Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

	(millions of euro)	
Captions	30.06.2017	31.12.2016
Group Shareholders' equity	53,164	48,911
Minority interests	357	408
<b>Shareholders' equity as per the Balance Sheet</b>	<b>53,521</b>	<b>49,319</b>
<b>Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period</b>		
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Other equity instruments eligible for inclusion in AT1	-4,120	-2,121
- Minority interests eligible for inclusion in AT1	-9	-6
- Minority interests eligible for inclusion in T2	-5	-2
- Ineligible minority interests on full phase-in	-297	-356
- Ineligible net income for the period <sup>(a)</sup>	-1,738	-3,111
- Treasury shares included under regulatory adjustments	89	98
- Other ineligible components on full phase-in	-40	-38
<b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>	<b>46,916</b>	<b>43,298</b>
<b>Regulatory adjustments (including transitional adjustments)</b>	<b>-9,208</b>	<b>-7,372</b>
<b>Common Equity Tier 1 capital (CET1) net of regulatory adjustments</b>	<b>37,708</b>	<b>35,926</b>

<sup>(a)</sup> Common Equity Tier 1 capital includes the public contribution of 3.5 billion euro recognised in the income statement, received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the related 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 the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017, based on 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 management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.

In addition to reflecting the operating responsibilities assigned in accordance with the Group's organisational structure, the business areas are an aggregation of business lines similar in the type of products and services they sell.

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first half of 2017.

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. With regard to the balance sheet data as at 30 June 2017 the acquired balances of Banca Popolare di Vicenza and Veneto Banca are shown. These have been temporarily allocated as a whole to the Banca dei Territori Division, and will be allocated based on the progress of the integration process, the conclusion of which is envisaged in 2018.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
<b>Operating income</b>								
30.06.2017	4,375	1,649	958	932	369	595	-321	8,557
30.06.2016	4,307	1,678	1,008	869	299	673	-193	8,641
% change <sup>(a)</sup>	1.6	-1.7	-5.0	7.2	23.4	-11.6	66.3	-1.0
<b>Operating costs</b>								
30.06.2017	-2,415	-467	-453	-269	-72	-85	-453	-4,214
30.06.2016	-2,450	-460	-478	-258	-64	-75	-430	-4,215
% change <sup>(a)</sup>	-1.4	1.5	-5.2	4.3	12.5	13.3	5.3	-
<b>Operating margin</b>								
30.06.2017	1,960	1,182	505	663	297	510	-774	4,343
30.06.2016	1,857	1,218	530	611	235	598	-623	4,426
% change <sup>(a)</sup>	5.5	-3.0	-4.7	8.5	26.4	-14.7	24.2	-1.9
<b>Net income (loss)</b>								
30.06.2017	693	797	501	445	235	357	2,210	5,238
30.06.2016	632	758	389	364	179	392	-1,007	1,707
% change <sup>(a)</sup>	9.7	5.1	28.8	22.3	31.3	-8.9		
<b>Loans to customers</b>								
30.06.2017	218,328	102,185	27,617	9,153	279	22	35,933	393,517
30.06.2017 (Excluding operations acquired)	193,900	102,185	27,617	9,153	279	22	35,933	369,089
31.12.2016	188,317	98,183	26,492	9,597	298	26	41,800	364,713
% change <sup>(b)</sup>	3.0	4.1	4.2	-4.6	-6.4	-15.4	-14.0	1.2
<b>Direct deposits from banking business</b>								
30.06.2017	201,484	106,628	34,158	28,395	7	-	41,376	412,048
30.06.2017 (Excluding operations acquired)	171,568	106,628	34,158	28,395	7	-	41,376	382,132
31.12.2016	173,599	112,661	32,978	27,540	8	-	47,012	393,798
% change <sup>(b)</sup>	-1.2	-5.4	3.6	3.1	-12.5	-	-12.0	-3.0
<b>Risk-weighted assets</b>								
30.06.2017	104,962	93,166	30,498	9,890	1,195	-	61,988	301,699
31.12.2016	84,165	103,744	30,013	9,727	1,130	-	55,139	283,918
% change <sup>(c)</sup>	24.7	-10.2	1.6	1.7	5.8	-	12.4	6.3
<b>Absorbed capital</b>								
30.06.2017	9,709	8,621	3,162	962	124	4,289	5,757	32,624
31.12.2016	7,785	9,600	3,106	934	118	4,186	5,136	30,865
% change <sup>(c)</sup>	24.7	-10.2	1.8	3.0	5.1	2.5	12.1	5.7

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

<sup>(a)</sup> The change expresses the ratio between 30.06.2017 and 30.06.2016.

<sup>(b)</sup> The change expresses the ratio between 30.06.2017 and 31.12.2016.

For the Banca dei Territori Division the change expresses the ratio between 30.06.2017, excluding operations acquired, and 31.12.2016.

<sup>(c)</sup> The change expresses the ratio between 30.06.2017 and 31.12.2016.

**BUSINESS AREAS****Banca dei Territori**

Income statement	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	2,255	2,301	-46	-2.0
Net fee and commission income	2,063	1,964	99	5.0
Income from insurance business	-	-	-	-
Profits (Losses) on trading	34	30	4	13.3
Other operating income (expenses)	23	12	11	91.7
<b>Operating income</b>	<b>4,375</b>	<b>4,307</b>	<b>68</b>	<b>1.6</b>
Personnel expenses	-1,502	-1,518	-16	-1.1
Other administrative expenses	-911	-930	-19	-2.0
Adjustments to property, equipment and intangible assets	-2	-2	-	-
<b>Operating costs</b>	<b>-2,415</b>	<b>-2,450</b>	<b>-35</b>	<b>-1.4</b>
<b>Operating margin</b>	<b>1,960</b>	<b>1,857</b>	<b>103</b>	<b>5.5</b>
Net adjustments to loans	-774	-930	-156	-16.8
Net provisions and net impairment losses on other assets	-6	-30	-24	-80.0
Other income (expenses)	-	109	-109	
Income (Loss) from discontinued operations	-	42	-42	
<b>Gross income (Loss)</b>	<b>1,180</b>	<b>1,048</b>	<b>132</b>	<b>12.6</b>
Taxes on income	-462	-396	66	16.7
Charges (net of tax) for integration and exit incentives	-23	-10	13	
Effect of purchase price allocation (net of tax)	-2	-4	-2	-50.0
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-6	-6	
<b>Net income (loss)</b>	<b>693</b>	<b>632</b>	<b>61</b>	<b>9.7</b>

	30.06.2017	31.12.2016	(millions of euro)	
			Changes amount	%
Loans to customers	218,328			
Loans to customers (excluding operations acquired)	193,900	188,317	5,583	3.0
Direct deposits from banking business	201,484			
Direct deposits from banking business (excluding operations acquired)	171,568	173,599	-2,031	-1.2
Risk-weighted assets	104,962	84,165	20,797	24.7
Absorbed capital	9,709	7,785	1,924	24.7

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

Banca dei Territori's operating income was 4,375 million euro in the first half of 2017, equal to over half of the Group's consolidated operating income, up 1.6% on the same period of the previous year. In further detail, there was an increase in net fee and commission income (+5%), specifically for the asset management segment - which benefited from greater placements of asset management products and certificates - and for the fees on protection products, driven by the positive performance of loans. Net interest income, though benefiting from growing customer dealing, recorded a drop (-2%) driven also by the more limited contribution from the hedging of core deposits. Among the other revenue components, which nevertheless provide a marginal contribution to the Division's income, both profits on trading (34 million euro) and other net operating income (23 million euro) showed positive performance. Operating costs, equal to 2,415 million euro, were down compared to the first six

months of 2016 (-1.4%) due to the savings on administrative expenses, in particular as regards the real estate service, and on personnel expenses. The operating margin amounted to 1,960 million euro, up 5.5% on the same period of 2016. Gross income, equal to 1,180 million euro, increased by 12.6% due to lower adjustments to loans and provisions, which benefited from the lower gross flows of new non-performing loans, and despite the lack of the extraordinary income in relation to the sale of the investment in VISA Europe recorded in 2016. Net income amounted to 693 million euro, up 9.7%, after allocation to the Division of integration charges of 23 million euro and the economic effects of purchase price allocation for 2 million euro.

Looking at the quarterly trend, revenues improved slightly in the second quarter compared to the first due to the higher contribution of fee and commission income. Gross income increased, benefiting from lower adjustments to loans, while net income was affected by higher integration charges.

Balance sheet figures at the end of June 2017, including the acquired operations of Banca Popolare di Vicenza and Veneto Banca, showed 218,328 million euro in loans to customers and 201,484 million euro in bank funding. Net of those operations, loans to customers totalled 193,900 million euro, up 5.6 billion euro (equal to +3%) compared to the start of the year. Their growth was driven essentially by higher medium/long-term loans to individuals (households and personal loans) and to businesses. Direct deposits from banking business, equal to 171,568 million euro, showed a drop of 2 billion euro (-1.2%) attributable to bonds.

<b>Business</b>	Traditional lending and deposit collection operations in Italy and associated financial services.
<b>Mission</b>	<p>To serve Retail, Personal, Small Business, and Small and Medium Enterprise customers, creating value through:</p> <ul style="list-style-type: none"> <li>- widespread local coverage;</li> <li>- focus on the characteristics of local markets, and the needs of customer segments serviced;</li> <li>- development of service levels to customers using different channels in order to improve the efficiency of the commercial offering;</li> </ul> <ul style="list-style-type: none"> <li>- 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;</li> <li>- exploitation of the company specialised in medium-term lending, leasing, factoring, advisory services and structured finance transactions, reporting to the Business Unit.</li> </ul>
<b>Organisational structure</b>	
Marketing, Multichannel Integration, Customer Experience and CRM Departments	<p>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.</p> <p>Supporting the branches and head office departments in defining the customer journey of commercial processes and development, in managing communications and relations with customers and the related Customer Satisfaction and Net Promoter Score surveys.</p>
Mediocredito Italiano	Specialised in medium-term lending, leasing, factoring, advisory services and structured finance operations to support the needs of investment, development and innovation of businesses and the local areas.
Banca 5	A "proximity bank", linked with a non-captive network of points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Banca Prossima	Serves non-profit organisations.
<b>Distribution structure</b>	<p>Approximately 3,700 branches, including Retail and Business branches, distributed broadly throughout Italy. Including the branches of Banca Popolare di Vicenza and Veneto Banca acquired at the end of June 2017, the number of branches rose to around 4,400. During the first half of the year, the network structure consisted of 8 Regional Governance Centres, each of which is in a reporting line 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.</p> <p>At the end of June, the 8 existing Regional Governance Centres were joined by the former Venetian banks Regional Governance Centre, the ninth Regional Governance Centre in the Banca dei Territori Division, created following the corporate transaction approved by the Board of Directors on 25 June 2017, which involved the acquisition of assets, liabilities and legal relationships of Banca Popolare di Vicenza and Veneto Banca.</p>

In the first six months of 2017, in the area of consumer credit, the merger by incorporation of Accedo (formerly Intesa Sanpaolo Personal Finance) into Intesa Sanpaolo was finalised. Following the corporate transaction, the customers of the incorporated company and their loans passed to the Parent Company.

## Marketing, Multichannel Integration, Customer Experience and CRM Departments

### Investment

During the first half of the year, the diversification of customer portfolios continued according to customer needs (spending, reserves, investment and pension) and the Recommended Portfolios. The offer of investment products was extended by: 55 new mutual funds, including three Individual Savings Plans, two products for dynamic management of liquidity of businesses, funds that involve a strategy of gradual entry into the stock market and protected investment solutions; a new process of "Exclusive Insurance", which allows investors to decide whether and to what extent to activate a portfolio protection mechanism; two multi-line policies: "LaTuaScelta" e "Fondi Stabilità<sup>insurance</sup>", which protect a percentage of invested capital; a new individual protection service for the "Unica" and "Unica Facile" portfolio management products, and the placement of certificates and of two IBRD bonds.

### Transactional products

At the beginning of May, "XME Salvadanaio" became available. This is a new transaction service combined with a current account, which can be used on mobile devices (by installing the Intesa Sanpaolo Mobile App) or via Internet banking, and allows customers to easily and quickly put aside even very small amounts to be allocated for future purchases, transferring amounts of money from the available funds on the account, periodically allocating set amounts or rounding up payments.

### Mortgages

Confirming the focus on customers' dream and need of a home, alongside a mortgage offer which aims to be comprehensive and flexible, thanks to the specific characteristics of innovative products such as "MutuoUp" and "Mutuo Giovani", the new "Real Estate Enhancement" service was launched as an accessory service to loans, to support those who intend to invest in their homes through energy redevelopment and building restructuring works, providing free information on tax benefits and savings on energy bills, as well as to support the best loan and home protection solutions. Customers also have discounts on the services of partners of the initiative (CasaClima, CoContest, Habitissimo) which operate in the energy redevelopment, interior design and restructuring sectors.

### Intesa Sanpaolo Casa

As part of the process of development and expansion of services provided to customers, with the goal of becoming a comprehensive point of reference for "home needs", Intesa Sanpaolo Casa, a Group company dedicated to residential real estate brokerage, operates in 466 Italian municipalities through 32 agencies - one specifically dedicated only to institutional customers to support them in selling or purchasing real estate throughout Italy - 2 satellite branches and 1 online branch.

### Young people

A special focus is reserved for young people, who are accompanied throughout all of the most important stages of their lives, combining products and services specifically conceived for that target and engagement initiatives, in order to become the preferred bank of younger customers. As part of the "Alternanza Scuola-Lavoro" work-study project, promoted to knock down the wall between school and work and favour knowledge of the working world for young people in the last three years of secondary school, new training laboratories were organised, with opportunities for active learning. Intesa Sanpaolo renewed its commitment as the main sponsor of the second annual Festival dei Giovani of Gaeta, which involved thousands of young people from secondary schools, promoting didactic laboratories, presentations of products dedicated to young people, such as "Carta Flash", "XME Conto", "PerTe Prestito Con Lode" and "MotoConMe", performances and meetings providing more in-depth information. To facilitate the financial inclusion of the younger generations, the age limit for "XME Conto", which allows customers to benefit from a reduction in the total monthly fee, was raised from 26 to 30. Furthermore, agreements continued to be signed with new entities with regard to "PerTe Prestito Con Lode", a product aimed at particularly deserving students, to provide them with access to credit, supporting them in their educational development.

### Multichannel Project

Continuing the process of digitisation and extension of the range of commercial products and services on direct channels, in May the sale of personal loans also to non-customers was launched, along with the new section of the public site "area ospiti" (guest section), which enriches the public showcase of the Intesa Sanpaolo website with new functionalities dedicated to those who are not yet our customers.

The document dematerialisation process - which has already resulted in savings of over 600 million euro in sheets of paper due to the elimination of signatures on paper at all Retail and Personal branches and the exclusive use by customers of their graphometric or digital signature to sign agreements that have already been dematerialised - was extended to the signing of the "ViaggiaConMe", "MotoConMe", "Interventi Chirurgici", "Malattie Gravi" and "Prevenzione e Salute" policies. That process already involved the main accounting documents at the counter, investment products, signing and after-sales of class I, III or multi-line policies, opening the "XME Conto" account and deposits under administration, payment cards, personal loans and the main regulatory documents, such as due diligence, FATCA, IVASS and CONSOB questionnaires.

The expansion of remote offerings targeted to individuals that hold Internet Banking Services contracts continued, to supplement the "in branch" and "out-of-branch" offers through authorised financial advisors, with the goal of improving customer service. The range of products, which already includes securities under placement, listed securities, mutual funds, personal loans, debit cards and prepaid credit cards, was expanded through the possibility of remotely sending commercial offerings, also regarding portfolio management schemes, class I and III and multi-line policies and protection products. Customers may sign the documentation via Internet, using their digital signature.

The new "Intesa Sanpaolo Mobile" App is now available. In addition to the option of carrying out common transactions, it offers new services that simplify access to the Bank's various channels: operations without the need for the physical token; withdrawals from ATMS without using cards; emergency withdrawals through which customers can have third parties withdraw cash from any ATM of the Group banks using only their smartphones; Online Branch immediately available for personalised assistance; new functionalities for payments using smartphones via JiffyPay, Masterpass and PAYGO. To complete the smartphone experience, the

following specific apps are also available: "Intesa Sanpaolo Investimenti", for asset management, "Market Hub", which offers information on global markets, and "App Intesa Sanpaolo Prepagate", targeted to holders of bearer cards, to simplify the management of transactions using the cards.

### Retail Businesses

During the first half of the year, "Best" was launched - an excellence programme for Retail Companies, a category that includes small businesses and micro enterprises (artisans, restaurants, small hotels, farmers and merchants) and freelance professionals. Through this initiative, the Bank develops commercial offerings designed based on the needs of the segment (facilitating access to credit), promotes contact channels and the training of managers, as well as the tools that support them to bring them ever closer to those companies.

### Agreements

The roll-out at local level, in cooperation with the Confindustria associations, of the new three-year agreement named "Progettare il futuro. Accelerazione, trasformazione digitale, competitività" signed with Confindustria Piccola Industria, was developed. This agreement is made of four pillars: corporate ecosystems and business integration, finance for growth, human capital and new entrepreneurship, which provide companies with up to 90 billion euro, to make use of the opportunities provided by the "fourth industrial revolution". In May, a partnership agreement was signed with UCIMU - Sistemi per Produrre, the association of Italian manufacturers of machine tool, robots and automation systems, designed to support companies that decide to innovate and invest in new technologies as part of the Industria 4.0 National Plan, by providing loans, training programmes and accompanying companies in the preparation of innovative projects.

### Sviluppo Filiere

The "Sviluppo Filiere" program, an innovative project launched by Intesa Sanpaolo which focuses on relationships between companies and their suppliers, was expanded by the "Confirming" tool, a new project designed by Mediocredito Italiano, which finances receivables due to suppliers by the lead company (using without recourse factoring), optimising the management of working capital within the production chain. "Confirming" substantially transfers risk to the company purchasing the goods and services (lead company or buyer), which is granted a credit ceiling, used by the suppliers in the factoring application. The "Sviluppo Filiere" programme, which brings together the most important industrial segments in the national economy, obtained significant results: at the end of the half, the number of participating lead companies exceeded 450, with a potential of over 15,000 suppliers, for a turnover exceeding 66 billion euro.

### Agriculture

Confirming the Group's commitment to support agricultural and agrifood companies in Italy and help the competitiveness of a key sector for the Italian economy, the partnership with the Ministry of Agricultural, Food and Forestry Policies (MIPAAF), with which last year a three-year agreement "Diamo credito all'agroalimentare italiano" (Granting Credit to Italian Agrifood), was expanded. This expansion involved an increase of the credit ceiling allocated for the period 2017-2019 from 6 to 8 billion euro, the provision to customer businesses in the sector of a self-assessment questionnaire to support any applications for loans or subsidies, an upgrade of the offering and services, with insurance policies personalised based on the needs of agribusiness and the activation of a revolving pledge on milk-dairy products.

### Loans

In relation to the Industria 4.0 National Plan of the Ministry of Economic Development and the measures in the Stability Law 2017 regarding tax incentives for new capital equipment investments necessary for technological upgrades (Super-depreciation and Hyper-depreciation), Intesa Sanpaolo has set up new solutions to support the growth of companies in the fourth stage of the industrial revolution. Alongside the specialist support, the commercial proposal involves the joint offering of a medium/long-term loan covering up to 100% of the investment and a short-term optional credit line to support working capital in the form of advances on trade receivables, in the maximum amount of 50% of the amount of the investment or the approval of a maximum credit limit, with loan options that can be combined with each other, capable of ensuring financial support to businesses' investment plans.

The Intesa Sanpaolo Group confirmed its commitment to support households and businesses impacted by the environmental disasters occurred in Italy. Along with the provision of new subsidised loans dedicated to restoring the damaged structures, suspensions of payments on outstanding loans, actions in the area of protection and preferential, simplified and expedited procedures for new instruments, in relation to the continuing situations of emergency in the areas of Central Italy hit by earthquakes, in order to provide additional support to residents in those areas, a fund of 20 million euro was allocated to cancel mortgages on primary residences for homes that were destroyed or are 100%-inaccessible. Furthermore, thanks to a fund established by the member banking foundations of ACRI, set up at Intesa Sanpaolo, the Bank will disburse up to 15 million euro in loans, at very low interest rates, for a maximum amount of 30 thousand euro, to small businesses in the areas impacted by the earthquake, for investments to restore or convert company operations or for liquidity needs.

## Product companies

In the first half of 2017, **Mediocredito Italiano** recorded a sales volume of medium and long-term products of 3.2 billion euro, up 28.6% (+706 million euro) compared with the same period of 2016, whilst factoring turnover was 31.1 billion euro, up 12.9% (+3.5 billion euro).

Mediocredito Italiano disbursed loans totalling 2.4 billion euro, growing by 32.4% compared to the first six months of the previous year. With 2.1 billion euro of loans disbursed (+29.1%), the Banca dei Territori Division accounts for 87.6% of total volumes, whilst the Corporate and Investment Banking Division, with 290 million euro (+55%), represents 11.9% of volumes disbursed. "Subito Mediocredito" generated 29% of the channelled lending in the Banca dei Territori Division (compared with 33% in the same period of 2016).



The Specialist Desks dedicated to the principal economic sectors generated medium-/long-term loan disbursements of 351 million euro (14.5% of the total disbursed during the period), down by 119 million euro compared with the same period in 2016, concentrated almost fully in the Energy segment. During the half-year, the Structured Finance Advisory Organisational Unit, which originated transactions of 101 million euro, became fully operational.

In the first half of 2017, Mediocredito Italiano entered into new leasing contracts with a value of 744 million euro (+17.7% compared to the first half of the previous year). Contracts entered into by customers of the Banca dei Territori Division amounted to 657 million euro (+12.3%), representing 88.3% of total volumes. Customers in the Corporate Division signed contracts totalling 64 million euro, equal to 9% of total volumes, sharply increasing on the same period of 2016 (+40 million euro). Among leasing products, instrumental leases and real estate leases accounted for 46% and 45% of total volumes contracted (+16% and +39% on the first half of 2016, respectively). The weight of motor products decreased from 13% to 9%, while the contribution of energy products came to less than 1%.

Turning to the commercial performance of the factoring business, in the first half of 2017 Mediocredito reported a turnover of 31.1 billion euro, up 12.9% on the same period of 2016, retaining its position as the number-one domestic factoring provider by turnover, with a market share close to 30%. Non-recourse factoring accounted for 91% of factoring business, up compared to the same period of the previous year. Compared with 31 December 2016, outstanding receivables, equal to 14.4 billion euro, posted an increase (+3.6%) and period-end loans amounted to 12.2 billion euro (+5.2%). 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 7.8 billion euro, represent 25% of the total turnover, up compared to the first six months of 2016 (+13%).

**Banca 5** (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.

The bank has around 22,000 customers which are owners of the non-captive points of sales (+1.4% compared to the same period of 2016) located throughout the country. During the half-year, the process of transformation of the Bank was launched, along with the development of the new business linked to retail customers served through the points of sale. In June, the Friends&Family stage of Banca 5 begun at the first five pilot points of sale. The services provided are classified into three main macro areas: services for individuals (postal and bank bill payment slips, F24 tax forms, car property tax, mobile phone and prepaid card top-ups), with around 44 million transactions carried out at the points of sale in the first half, with an amount transacted of 3.1 billion euro (+4.1% compared to the first half of 2016); services for businesses, relating to the collections of businesses through SDD, which generated around one million transactions, with an amount transacted of 1.1 billion euro (+57%); services to the points of sale, relating to fees for current accounts and use of the terminal, revenues for account activation and for credit line services (+14% in terms of revenues). In the second half of the year, the issue of all the products planned in the initial stage of the project will be completed (SPID, Flash cards, loans, insurance, payment accounts and assistance services).

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## Banca Prossima

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**Banca Prossima** operates in the non-profit sector through 84 local branches and 240 specialists distributed throughout Italy. During the half-year, the bank continued acquiring new customers for the Group, with around 60,000 customers at the end of June 2017. Financial assets amounted to 5.7 billion euro, of which 3.2 billion euro in direct deposits, while lending operations had presented an approved amount of 2.5 billion euro (of which 1.7 billion euro had been used).

In order to strengthen its role in the Group as “leading bank for the non-profit sector”, the new service model was fine-tuned, which introduced advanced customer segmentation to align service logics with the value and complexity of the customers, optimising commercial action and rationalising territorial coverage. During the half-year, the business plan that will guide the activities of the bank for the whole year was structured: 25 initiatives were realised to develop the relationship with non-profit organisations and better meet their needs, giving priority to financial needs not yet adequately met.

Specific offers of the Group, such as the one for agriculture, were extended to customers of Banca Prossima. The bank also participated in the brokerage agreement signed with the AON Group. During the half-year, marketing began of the EIB loans based on the agreement signed in December 2016. Internally, the analysis and monitoring tools were updated.

Lastly, in order to develop greater synergies with banking foundations, in addition to specific agreements to multiply the social value of the resources of the foundations, Banca Prossima - along with Mediocredito - participated also in 2017 in the initiative of ABI and ACRI for the assignment of tax receivables, providing this service to various banking foundations during the first half of the year.

**Corporate and Investment Banking**

Income statement	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	796	712	84	11.8
Net fee and commission income	469	483	-14	-2.9
Income from insurance business	-	-	-	-
Profits (Losses) on trading	378	480	-102	-21.3
Other operating income (expenses)	6	3	3	
<b>Operating income</b>	<b>1,649</b>	<b>1,678</b>	<b>-29</b>	<b>-1.7</b>
Personnel expenses	-181	-173	8	4.6
Other administrative expenses	-285	-286	-1	-0.3
Adjustments to property, equipment and intangible assets	-1	-1	-	-
<b>Operating costs</b>	<b>-467</b>	<b>-460</b>	<b>7</b>	<b>1.5</b>
<b>Operating margin</b>	<b>1,182</b>	<b>1,218</b>	<b>-36</b>	<b>-3.0</b>
Net adjustments to loans	-164	-123	41	33.3
Net provisions and net impairment losses on other assets	-23	-2	21	
Other income (expenses)	109	18	91	
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (Loss)</b>	<b>1,104</b>	<b>1,111</b>	<b>-7</b>	<b>-0.6</b>
Taxes on income	-305	-350	-45	-12.9
Charges (net of tax) for integration and exit incentives	-2	-3	-1	-33.3
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>797</b>	<b>758</b>	<b>39</b>	<b>5.1</b>

	30.06.2017	31.12.2016	(millions of euro)	
			Changes amount	%
Loans to customers	102,185	98,183	4,002	4.1
Direct deposits from banking business <sup>(a)</sup>	106,628	112,661	-6,033	-5.4
Risk-weighted assets	93,166	103,744	-10,578	-10.2
Absorbed capital	8,621	9,600	-979	-10.2

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

<sup>(a)</sup> The item includes capital protected certificates.

In the first half of 2017, the Corporate and Investment Banking Division recorded operating income of 1,649 million euro (representing about 20% of the Group's consolidated total), down 1.7% compared to the same period of last year. In detail, net interest income of 796 million euro was up (+11.8%) attributable to the greater contribution from customer dealing. Net fee and commission income, equal to 469 million euro, declined by 2.9%, primarily due to the negative performance of the commercial banking segment (which includes loans, guarantees and interbank services) which was only partially offset by the expansion of fee and commission income in the capital markets segment. Profits on trading, equal to 378 million euro, decreased by 21.3% due to the lower contribution of the global markets business. Operating costs amounted to 467 million euro, slightly up (+1.5%) compared to first six months of 2016, especially due to greater personnel expenses. As a result of the revenue and cost dynamics described, the operating margin came to 1,182 million euro, recording a drop of 3%. Gross income, equal to 1,104 million euro, remained substantially in line (-0.6%) with the figure for the same period of the previous year, benefiting from the partial disposal of the stake in NTV and the fair value measurement of the remaining equity investment following its reclassification under companies not subject to significant influence. The NTV transaction was overseen by the Structured Finance

team of Banca IMI, as part of the core business of the Corporate and Investment Banking Division. Finally, net income came to 797 million euro, compared to 758 million in the first half of 2016 (+5.1%).  
In the second quarter, the Corporate and Investment Banking Division recorded an increase in revenues and in the main income margins compared to the first quarter, also in relation to the abovementioned capital gain deriving from the NTV transaction.

As regards intermediated volumes, loans to customers, amounting to 102,185 million euro, grew by 4 billion euro (+4.1%) also in relation to increased operations in repurchase agreements by Banca IMI and higher loans of Intesa Sanpaolo Bank Luxembourg, while direct deposits from banking business, equal to 106,628 million euro, decreased by 6 billion euro (-5.4%) due to both amounts due to customers of the Global Corporate Department, the International Department and Banca IMI and securities issued - in particular those of the Financial Institutions Department and Banca IMI certificates.

<p><b>Business</b></p>	<p>Corporate, Investment Banking and Public Finance, in Italy and abroad.</p>
<p><b>Mission</b></p>	<p>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.</p>
<p><b>Organisational structure</b></p>	
<p>Global Corporate Department</p>	<p>The Department develops and manages relationships with Italian and foreign corporates with diverse needs and multinational presence, and with domestic public entities. It ensures the provision of a global, integrated offering of products and services by specific economic sector for customers under its remit, integrating traditional commercial banking products and services with those of investment banking and capital markets, pursuing cross-selling of products and services overseen by the</p>
<p>Corporate and Investment Banking Division, by other Divisions and by the Group's product companies, availing itself centrally of the commercial action of the Industry units, and locally of the Italian network (Areas) and of the international network of the International Department. The specialist coverage by industry includes all industrial sectors: Automotive &amp; Mechanics; Basic Materials &amp; Healthcare; Energy &amp; Utilities; Food &amp; Beverage and Distribution; Global EPC &amp; Integrated Logistics; Infrastructure &amp; Real Estate Partners; Oil &amp; Gas; Public Finance, Retail and Luxury; Telecom, Media and Technology. The Business Solutions industry also manages highly complex customers, transversally across the various sectors.</p>	
<p>International Department</p>	<p>The Department ensures the international development of the Division in agreement with the other relationship and product structures, ensures the correct management of operational and commercial activities of the international branches and representative offices and oversees the management of the international subsidiary banks (Intesa Sanpaolo Bank Luxembourg S.A., Intesa Sanpaolo Bank Ireland Plc and Intesa Sanpaolo Brasil S.A. - Banco Multiplo), ensuring their overall coordination.</p>
<p>Financial Institutions Department</p>	<p>The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its highly sophisticated approach to relations with such customers is widely diversified and oriented towards integrated solutions that promote the cross-selling of capital markets and investment banking products.</p>
<p>Global Transaction Banking Department</p>	<p>The Department is responsible for transaction banking products and services for the entire Group.</p>
<p>Proprietary Trading</p>	<p>The Sub-Department is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives.</p>
<p>Global Markets and Corporate &amp; Strategic Finance</p>	<p>The scope of the Division also includes the M&amp;A, capital markets, structured finance and primary markets (equity and debt capital market) activities performed by Banca IMI.</p>
<p><b>Distribution structure</b></p>	<p>In Italy, the Corporate and Investment Banking Division avails of a total of 28 branches dedicated to corporate customers and public customers. At the international level, it operates in 28 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.</p>

## Global Corporate Department

In the first half of 2017, the Global Corporate Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of investment banking transactions to the benefit of Italian and international customers. The Department continued to support both corporate customers, consisting of individual companies or national groups with over 350 million euro in turnover and international groups, and 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). 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 and international company customers. The initiatives regarded all industrial segments, without distinction.

The Department participated in numerous syndicated loans, such as that in favour of Datalogic (world leader in the barcode reader, vision and laser marking systems sector), Telefónica S.A. (one of the leading private telecommunications companies in the world), VimpelCom Holding (telecommunications multinational) and Organismo Centrale di Stoccaggio Italiano (Acquirente Unico).

It also participated in the loan for the acquisition of the Capsugel Group by Lonza (pharmaceutical company primarily operating in the manufacture and distribution of Pharma&Biotech and Consumer Care products) and the refinancing transaction for the Maire Tecnimont Group. The Bank also supported the NTV Group as mandated lead arranger and lender in its debt refinancing, as rating advisor in the acquisition of a public rating, and as global coordinator and bookrunner in the first issue on the bond market.

It also provided support to national and international businesses through bilateral loans, such as those for Luxottica Group, for general corporate purposes or for Liu Jo, for the purpose of reorganising the shareholding structure.

With regard to the Debt Capital Markets business, the Bank acted as bookrunner in the bond issues of Iberdrola, Telecom Italia, Cellnex Telecom S.A., Engie, Italgas and Auchan.

The Bank also acted as the financial debt advisor of Atlantia in the voluntary tender offer for purchase and/or exchange on all shares issued by Abertis (listed on the Spanish regulated market), also taking on the role of "aval issuer" in relation to the supervisory authorities of the Spanish stock market.

The Global Corporate Department participated in global programmes to support multinational companies, in senior roles, specifically standing out as main bank in the supply chain financing of the various divisions of the Jab Group, world leader in the coffee sector. The commercial offering to domestic customers of loans at favourable economic terms, to transfer to the real economy the liquidity made available by the ECB to the European banks during the second edition of the T-LTRO (Targeted Long Term Refinancing Operation).

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.

During the half-year, activities were carried out as part of the Industry 4.0 project which, following on that set out in the Industria 4.0 National Plan, aim to propose the Group as a strategic partner in technological development initiatives, in order to stimulate investments, digital transformation and the acceleration of competitiveness of national production. To that end, Intesa Sanpaolo supported a project of the Bonfiglioli Group, one of the leading players in the mechanical engineering sector.

## International Department

In the first half of 2017, the International Department continued work on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets. As part of projects aimed at increasing competitiveness on customers, coverage and products in markets of strategic interest, the Department defined specific interventions to optimise synergies and opportunities for cross-selling corporate and investment banking products on various target customers.

Specific attention was paid to promoting business in the Gulf region and in the geographical areas where the Department has recently expanded its presence.

Directly managed transactions with international customers included loans in the roles of bookrunner and mandate lead arranger as part of the Jewel Project for the expansion of the Dubai airports, and the Lobster Project for the acquisition by Oman Investment Fund of 51% of Oman Telecom, as well as those as mandate lead arranger for the National Treasury of Kenya to develop two dams and agricultural infrastructure in Kenya.

As part of the funding of two private public partnership projects for the construction of hospitals in Turkey, significant hedging derivative transactions were concluded, involving both cross currency and interest rate hedging.

The development actions were accompanied by targeted measures to increase the efficiency of direct coverage, such as, for example, closing of the Casablanca office (March 2017). The Department's current international network is present in 28 countries through 15 wholesale branches, 14 representative offices and 3 subsidiary banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil). This network increasingly represents the right blend of customer relations and offering of products in specific markets.

## Financial Institutions Department

In the first half of 2017, the leading players in the European banking system continued to deal with extreme challenges, both in terms of macroeconomic variables and the evolution of service models. The European market saw several important share capital issues and a significant bank concentration transaction (Santander's takeover of Banco Popular). Likewise, the Italian banking sector had to handle situations which, though originating in previous periods, continued to have negative effects, even in the first few months of the current year. In this market context, Intesa Sanpaolo supported its customers in various types of transactions, including the capital increases of UniCredit, Deutsche Bank, Credit Suisse and UBI, disposals/securitisations of NPLs (e.g. Banca Carige), loan transactions (ex. Coima SGR and REV Gestione Crediti) and bond issues (ex. CDP, Azimut).

Strong demand for financial support for exports of Italian and international customers of Intesa Sanpaolo to emerging countries continued, as had already been the case in 2016. As a result of Intesa Sanpaolo's work in the export credit sector over the last few

years, the Bank has been involved in transactions of increasing importance, with leading roles in structuring loans and in direct relationships with exporters and buyers of Italian products. During the first half, Intesa Sanpaolo finalised important transactions with countries such as Cameroon, Qatar, Angola and Kenya. Highly positive operations were also seen in the commodity financing sector, an increasingly strategic area for achieving the Department's income targets, thanks to the good margins which can still be obtained. In addition to transactions with large Russian operators in the fertiliser and metal sectors (Metalloinvest, SUEK, Acron), the Bank seized opportunities with counterparties in Asia such as the Sinochem and China National Offshore Oil Co. groups. Furthermore, the supply chain finance sector also recorded positive growth. In this sector, the Bank primarily concentrates on customers operating in mature markets (America and Europe).

Lastly, as regards transactions with financial sponsors (private equity funds and sovereign wealth funds), the market continued to be highly dynamic, with a significant number and volume of transactions and continuous interest by international operators in the sector in Italian companies, especially those with proprietary technology, sustainable competitive positions and a high propensity for exporting. In the first half, Intesa Sanpaolo was involved in numerous sponsor-driven transactions, including acting as advisor in the Banca Farmafactoring IPO and the sale of Avio Spazio to Space 2 (Spac), the loan to Oman Investment Fund relating to the transfer of the equity investment in Oman Telecom by the Ministry of Finance and the loan to KKR for the acquisition of an equity investment in Telxius, as well as the role of joint bookrunner in relation to the bond issued by Mercury (ICBPI).

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### Global Transaction Banking Department

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In the first half of 2017, the Global Transaction Banking Department strengthened its commercial coverage of transactional products, expanding its network of specialists both in Italy and abroad.

In the area of commercial support to the Group Divisions, numerous initiatives were launched on traditional and innovative transactional products. As regards the development of new services, cash management and trade finance solutions were released, also launching strategic development solutions in order to expand the offering. The Department also actively participates in events to promote transaction banking products and services to customers.

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### Proprietary Trading

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During the first half of 2017, Proprietary Trading recorded a positive contribution to the income statement in terms of revenues, improving compared with the first six months of 2016.

The risk exposure to structured credit products amounted to 2,229 million euro as at 30 June 2017, with respect to funded and unfunded ABSs/CDOs; excluding the positions coming from the acquisition of the Venetian banks for 217 million euro, the exposure stands at 2,012 million euro compared to 2,471 million euro as at 31 December 2016. The exposure with respect to structured packages as at 30 June 2017 is equal to 2 million euro. It was 7 million euro on 31 December 2016.

The hedge fund portfolio, held for trading, totalled 310 million euro as at 30 June 2017 compared to 352 million euro recorded in December 2016.

The reduction of the portfolio is attributable to the distributions and redemptions that took place starting from the second quarter of last year and continuing in the first half of this year, aimed at reducing the risk level of the exposure.

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### Global Markets and Corporate & Strategic Finance

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In the first half of 2017, activity in the Solutions segment (mainly linked to optimising liquidity and capital ratios) recorded good performance, accompanied by positive results in the Equity area where, in addition to the impact of Individual Savings Plans, the market showed interest in alternative products such as SPACs (Special Purpose Acquisition Companies). The operations on the Italian Treasury's primary market were very strong and forex operations recorded good results due to operations with institutional counterparties. Positive performance was also seen in the placement of certificates and commodities, while gold lending saw a slowdown. There were increases in transactions in OTC (over the counter) derivatives, placements of structured funds and issues of protected capital certificates. The Market HUB platform recorded increased operations in equities, a downturn in bonds and stable performance of exchange trade derivatives. Operations in interest rates in favour of corporate customers were focused on extraordinary transactions which involved the M&A and Project Finance segments, both in Italy and abroad.

The Securitisation and Risk Transfer Solutions area focused on structuring and actively managing credit risk, in order to offer customers solutions targeted to optimising economic and regulatory capital, deconsolidating non-core and non-performing assets and improving net financial position. In the Securitisation segment, the Department finalised securitisation transactions on various types of assets (consumer credit, receivables underlying lease contracts, residential mortgages) for numerous Italian banks. The Bank also assisted customers in the revolving factoring of trade receivables deriving from the sale of oil products, the construction and maintenance of energy plants and roadside petrol stations. In the area of Risk Transfer Solutions, the Bank supported customers in the transfer of bad loans and was involved in structuring and disbursing the refinancing of the loan due to the Bridge Entities (the banks created from the resolution of Banca Marche, Banca Popolare Etruria e Lazio, Cassa di Risparmio di Chieti and Cassa di Risparmio di Ferrara) from REV in exchange for the transfer of bad loans.

In the Equity Capital Markets segment, Banca IMI acted as global coordinator in the IPO (Initial Public Offering) of the SPAC (Special Purpose Acquisition Company) of Crescita and of Indel B, as joint bookrunner in the capital increase of UniCredit and as co-bookrunner in the capital increase of UBI. At the international level, it participated in the capital increases of Deutsche Bank, Credit Suisse and Edf. In the tender offer segment, it acted as coordinator of the voluntary partial tender offer promoted by Italmobiliare.

As regards M&A Advisory activity, Banca IMI supported customers in various industrial segments. In the TMT sector, it supported L'Espresso Group in the acquisition of Italiana Editrice and Abertis in the sale of Infracom to the F2i and Marguerite funds. In the industrial segment, it supported IMR Industries in the acquisition of Industriaesud; in the agricultural and food segment, it worked for Bonifiche Ferraresi as part of the tender offer for purchase and exchange promoted by BF Holding and in the infrastructure segment it supported several Italian companies in the purchase of shares of Finanziaria Internazionale. It also acted as advisor for a

consortium that includes Finanziaria Internazionale and two international infrastructure funds in the acquisition of a controlling stake in SAVE.

In the Debt Capital Markets segment, Banca IMI oversaw, in the role of bookrunner, the placement of the bond issued by Nuovo Trasporto Viaggiatori (NTV), a private operator in the high speed railway sector. It supported transactions of Italian corporate customers such as Leonardo, Ansaldo Energia, CNH Industrial, Italgas, 2i Rete Gas, Snam and Enel and international corporate customers such as APRR, Merlin Properties, Repsol, General Motors, Vinci, Gas Natural, FCE Bank, Engie, Air Liquide, RCI Bank, Iberdrola, Unibail-Rodamco, Auchan and PSA Banque. In the Financial Institutions segment, we highlight the activities carried out in relation to the Green Bond, which made Intesa Sanpaolo the first Italian bank to debut as a “green” issuer, demonstrating its commitment to the growth of sustainable finance in Italy. Banca IMI also acted as bookrunner in the issues guaranteed by the government of Veneto Banca and Banca Popolare di Vicenza, as well as in the senior, covered or subordinated issues of Azimut, LBBW, SoGen, CFF, DVB, Deutsche Bank, Bank of America, Goldman Sachs, BNP Paribas, JP Morgan and Santander.

With regard to Structured Finance, in the first half of 2017 the Bank participated in several of the top EMEA syndicated loans. International operations were intense, specifically those relating to acquisition financing, involving the participation in several important leveraged deals such as the acquisition of a bio-pharmaceutical company by a Swiss pharmaceutical multinational, the acquisition of shares of Stillwater Mining by Sibayne, the acquisition of Omantel by Oman Investment Fund, of Harris CapRock by Speedcast, of Travelopia by KKR and of CR Bard by Becton Dickinson. Worthy of note were also several project financing transactions in the shipping sector (Brightoil Petroleum and Yinson Holdings), the oil & gas sector (SPI Exploration & Production Corp), the energy sector (Transitgas and FluxSwiss, Fern Trading, Star Energy, Tierra Mojada) and the infrastructure sector (university hospital in Spain and Aeropuertos Dominicanos Siglo XXI) as well as real estate transactions in New York (Extell and Red Hook 160). Important project financing transactions were also implemented on the Italian market, in the infrastructure sector (Nuovo Trasporto Viaggiatori, 2i Aeroporti, Atlantia) and energy sector (Ortigia Power, Swisspower), along with leveraged finance (Marco Polo International and Pirelli), corporate finance (Fiat Chrysler Automobiles, Arnault Group/Christian Dior and LVMH, Luxottica, AlfaSigma, Fater, Vimpelcom, LiuJo, Maire Tecnimont Esprinet, Edison and Valentino) and real estate transactions (Fondo Atlantic 1, Fondo Immobiliare Omega, Trophy Value Added and Lido di Venezia).

**International Subsidiary Banks**

Income statement	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	667	728	-61	-8.4
Net fee and commission income	241	236	5	2.1
Income from insurance business	-	-	-	-
Profits (Losses) on trading	80	60	20	33.3
Other operating income (expenses)	-30	-16	14	87.5
<b>Operating income</b>	<b>958</b>	<b>1,008</b>	<b>-50</b>	<b>-5.0</b>
Personnel expenses	-249	-266	-17	-6.4
Other administrative expenses	-164	-168	-4	-2.4
Adjustments to property, equipment and intangible assets	-40	-44	-4	-9.1
<b>Operating costs</b>	<b>-453</b>	<b>-478</b>	<b>-25</b>	<b>-5.2</b>
<b>Operating margin</b>	<b>505</b>	<b>530</b>	<b>-25</b>	<b>-4.7</b>
Net adjustments to loans	-114	-106	8	7.5
Net provisions and net impairment losses on other assets	16	18	-2	-11.1
Other income (expenses)	195	65	130	
Income (Loss) from discontinued operations	-	2	-2	
<b>Gross income (Loss)</b>	<b>602</b>	<b>509</b>	<b>93</b>	<b>18.3</b>
Taxes on income	-93	-101	-8	-7.9
Charges (net of tax) for integration and exit incentives	-8	-19	-11	-57.9
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>501</b>	<b>389</b>	<b>112</b>	<b>28.8</b>

	30.06.2017	31.12.2016	(millions of euro)	
			Changes amount	%
Loans to customers	27,617	26,492	1,125	4.2
Direct deposits from banking business	34,158	32,978	1,180	3.6
Risk-weighted assets	30,498	30,013	485	1.6
Absorbed capital	3,162	3,106	56	1.8

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

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

In the first half of 2017, the Division's operating income came to 958 million euro, down 5% compared to the same period of the previous year (+8% at like-for-like exchange rates). This trend was influenced by the depreciation of the Egyptian pound in 2016 following the announcement by the Central Bank of Egypt that it will allow the currency to float. A detailed analysis shows that net interest income came to 667 million euro compared to 728 million euro of the first six months of 2016 (-8.4%), due to the trends reported by Bank of Alexandria (-46 million euro), VUB Banka (-7 million euro) and CIB Bank (-6 million euro), only partly offset by PBZ, including Intesa Sanpaolo Banka Bosna i Hercegovina (+9 million euro). Net fee and commission income, equal to 241 million euro, increased (+2.1%) compared to the same period of 2016. Profits on trading, amounting to 80 million euro, increased (+33.3%) due to increased contributions from VUB Banka (+14 million euro), PBZ - including Intesa Sanpaolo Banka Bosna i Hercegovina (+3 million euro) and Banca Intesa - Russia (+3 million euro).

Operating costs of 453 million euro decreased by 5.2% compared to the same period in 2016 (+4.3% at like-for-like exchange rates). As a result of the above revenue and cost trends, the operating margin came to 505 million euro, down 4.7% (+11.4% at like-for-like exchange rates). Gross income, amounting to 602 million euro, increased significantly compared to the 509 million euro of the first six months of last year (+18.3%), benefiting from the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the

entities subject to significant influence. Excluding this effect, a 19.1% decrease is recorded compared with the same period of 2016 (-2.5% at like-for-like exchange rates), when a portion of the capital gain deriving from the sale of the equity investment in VISA Europe was recorded. The Division closed the first half of 2017 with net income of 501 million euro, up compared to the 389 million euro recorded in the same period of 2016.

In the second quarter of 2017, the operating margin recorded an improvement compared with the first quarter, benefiting from increased revenues. Gross income and net income were negatively impacted by the absence of the positive effect recorded in the first quarter following the fair value measurement of the investment in Bank of Qingdao.

The Division's intermediated volumes grew compared to the end of December 2016 (+3.9%) owing to positive performance by loans to customers (+4.2%) and direct deposits from banking business (+3.6%), in both amounts due to customers and securities issued.

During the first half year of the year, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, product range and information technology.

Specifically, in the commercial area, the development of new digital channels continued in Croatia, Hungary and Egypt, as well as the extension of the Customer Relationship Management methodology to Slovakia and the implementation of the advisory model in investment services in Slovakia, Croatia, Hungary and Slovenia. For the purpose of strengthening and optimising the presence of the international subsidiary banks in their geographical areas of operation, the integration of the Bosnian bank into the Croatian group continued, achieving the expected synergies. During the period, the authorisation process for the acquisition of the bank in Slovenia by the bank in Croatia was concluded. In the area of loans, the Early Warning System platform, already activated in the main countries, was also extended to Hungary, Romania and Albania. The common platform for granting loans, already operational at many international subsidiary banks, was also launched in Hungary.

**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

**Distribution structure**

Around 1,100 branches in 11 countries.



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## South-Eastern Europe

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In the first half of 2017, the operating income of the Privredna Banka Zagreb Group amounted to 252 million euro up compared to the same period of 2016 (+7.6%), due to the favourable trend in profits on trading, net interest income and fee and commission income. Operating costs of 96 million euro increased slightly (+1.2%) due to the rising trend in personnel expenses. The operating margin came to 155 million euro (+12%). Gross income came to 107 million euro (-24.5%), impacted by the increase in adjustments to loans. Net income came to 79 million euro (-22.9%).

**Banca Intesa Beograd**, including Intesa Leasing Beograd, generated operating margin of 64 million euro, up 3.1% on the same period of 2016. Operating income increased by 1.3%, primarily due to the performance of net fee and commission income and profits on trading. Operating costs were slightly down on those of the first half of 2016. Gross income amounted to 47 million euro, up 8.6%, following the lower adjustments to loans, while net income was 39 million euro (+7.1%).

**Intesa Sanpaolo Banka Bosna i Hercegovina** closed the first half of 2017 with an operating margin of 10 million euro, increasing on the first half of the previous year (+5%). This performance is attributable to the increase in operating income, which more than offset the growing operating costs. Gross income, amounting to 7.6 million euro, recorded a decrease of 8%, while net income amounted to 6.1 million euro (-16.5%).

Intesa Sanpaolo Bank Albania reported an operating margin of 9.5 million euro, down on the same period of 2016 (-21.3%), due to a decline in revenues, while operating costs remained substantially stable. Gross income amounted to 11 million euro (-11%). Net income, equal to 8.9 million, fell by 12.3%.

**Intesa Sanpaolo Bank Romania** recorded an operating margin of 5.3 million euro, down (-40%) compared to the first half of 2016 due to the declining trend in operating income (-16.3%), primarily attributable to lower interest income. The company showed net income of 4 million euro, compared to net income of 5.1 million euro posted in the first six months of the previous year.

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## Central-Eastern Europe

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**Intesa Sanpaolo Bank (formerly Banka Koper)** reported operating income of 38 million euro, down 10.7% on the same period of the previous year, due to the negative performance in all the main income components. Costs remained more or less stable compared to the first half of 2016. Gross income declined by 63.6%, mainly due to the decrease in other income. The same trend was seen in net income, which amounted to 3.1 million euro.

The **VUB Banka** Group recorded an operating margin of 145 million euro, improving (+2.5%) on the same period of the previous year as a result of a growing trend in operating income (+2.3%) and despite a slight increase in operating costs (+2%). On the revenue side, profits on trading and net fee and commission income increased. Gross income, equal to 136 million euro, grew by 11.6% due to releases of allowances for risks and charges and lower adjustments to loans. Net income came to 101 million euro (+14.8%).

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 81 million euro, down 5.9% compared to the first half of 2016, mainly due to the decrease in net interest income. Operating costs recorded savings (-4.5%), especially in personnel expenses. Net income recorded a positive balance of 15 million euro, compared to net income of 29 million euro posted in the first half of 2016.

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## Commonwealth of Independent States & South Mediterranean

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**Banca Intesa – Russia** closed the first half of 2017 with an increase in operating income (+6.4%), attributable to the positive development of profits on trading and net fee and commission income. Operating costs rose by 12.1% in relation to the expansion of personnel expenses and higher amortisation and depreciation. Net adjustments to loans, amounting to 7.3 million euro, decreased significantly compared to the first six months of 2016. The net loss (-4.3 million euro) compares to a net loss of 5.1 million euro posted in the same period of the previous year.

**Bank of Alexandria** reported an operating margin of 82 million euro, lower than in the first half of 2016 (-20%), due to the depreciation of the Egyptian pound. Operating income of 130 million euro declined (-29%) as a result of the aforementioned depreciation, which had a negative impact on all components (+47.8% at like-for-like exchange rates). Operating costs declined (-40.4%; +24.1% at like-for-like exchange rates), attributable to the exchange rate effect on all expense captions. Net income came to 58 million euro, down 23.9% on the same period of 2016 (+58.4% at like-for-like exchange rates).

## Private Banking

Income statement	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	90	89	1	1.1
Net fee and commission income	819	763	56	7.3
Income from insurance business	-	-	-	-
Profits (Losses) on trading	17	10	7	70.0
Other operating income (expenses)	6	7	-1	-14.3
<b>Operating income</b>	<b>932</b>	<b>869</b>	<b>63</b>	<b>7.2</b>
Personnel expenses	-155	-142	13	9.2
Other administrative expenses	-107	-108	-1	-0.9
Adjustments to property, equipment and intangible assets	-7	-8	-1	-12.5
<b>Operating costs</b>	<b>-269</b>	<b>-258</b>	<b>11</b>	<b>4.3</b>
<b>Operating margin</b>	<b>663</b>	<b>611</b>	<b>52</b>	<b>8.5</b>
Net adjustments to loans	-	7	-7	-
Net provisions and net impairment losses on other assets	-17	-28	-11	-39.3
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (Loss)</b>	<b>646</b>	<b>590</b>	<b>56</b>	<b>9.5</b>
Taxes on income	-188	-167	21	12.6
Charges (net of tax) for integration and exit incentives	-13	-17	-4	-23.5
Effect of purchase price allocation (net of tax)	-	-42	-42	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>445</b>	<b>364</b>	<b>81</b>	<b>22.3</b>

	30.06.2017	31.12.2016	(millions of euro)	
			Changes amount	%
Assets under management <sup>(1)</sup>	110,013	104,129	5,884	5.7
Risk-weighted assets	9,890	9,727	163	1.7
Absorbed capital	962	934	28	3.0

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

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

The **Private Banking Division** serves the top customer segment (Private and High Net Worth Individuals), creating value by offering 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 2017, the Division generated gross income of 646 million euro, up (+56 million euro, or +9.5%) compared with the corresponding period in 2016, mainly as a result of higher operating income (+63 million euro) - mainly attributable to the increase in net fee and commission income (+56 million euro) and profits on trading (+7 million euro) - as well as lower provisions (-11 million euro). The drop in the latter was mainly due to the discounting of the allowances for risks, which, due to the increasing trend of interest rates, led to a lower charge to the income statement. Operating costs moved in the opposite direction (+11 million euro), mostly due to the increase in personnel expenses related to the quantitative and qualitative strengthening of the workforce, as well as profits on disposals of bonds in the loan portfolio (-7 million euro). Net income was 445 million euro (+81 million euro, or approximately +22%).

The values of assets under administration have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are

already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.

As at 30 June 2017, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 176.3 billion euro (+10.3 billion euro compared to the end of 2016). That performance was largely due to higher net inflows and, to a lesser extent, the effect of performance on assets. The assets under management component amounted to 110 billion euro, up by 5.9 billion euro (+5.7) compared to 31 December 2016.

<b>Business</b>	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.
<b>Mission</b>	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.
<b>Organisational structure</b>	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of more than 5,000 Fideuram and Sanpaolo Invest financial advisors.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of around 900 in-house private bankers.
SIREFID	Company specialised in the provision of fiduciary services.
<b>Distribution structure</b>	Network of 225 branches in Italy, three branches abroad and 5,922 financial advisors and private bankers.

## Asset Management

Income statement	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	-	-	-	-
Net fee and commission income	322	261	61	23.4
Income from insurance business	-	-	-	-
Profits (Losses) on trading	-	4	-4	
Other operating income (expenses)	47	34	13	38.2
<b>Operating income</b>	<b>369</b>	<b>299</b>	<b>70</b>	<b>23.4</b>
Personnel expenses	-33	-28	5	17.9
Other administrative expenses	-39	-36	3	8.3
Adjustments to property, equipment and intangible assets	-	-	-	-
<b>Operating costs</b>	<b>-72</b>	<b>-64</b>	<b>8</b>	<b>12.5</b>
<b>Operating margin</b>	<b>297</b>	<b>235</b>	<b>62</b>	<b>26.4</b>
Net adjustments to loans	-	-	-	-
Net provisions and net impairment losses on other assets	-	-	-	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (Loss)</b>	<b>297</b>	<b>235</b>	<b>62</b>	<b>26.4</b>
Taxes on income	-55	-51	4	7.8
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-7	-5	2	40.0
<b>Net income (loss)</b>	<b>235</b>	<b>179</b>	<b>56</b>	<b>31.3</b>

	30.06.2017	31.12.2016	(millions of euro)	
			Changes amount	%
Assets under management	244,936	238,804	6,132	2.6
Risk-weighted assets	1,195	1,130	65	5.8
Absorbed capital	124	118	6	5.1

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

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

Overall, the total assets managed by the Asset Management Division at the end of June 2017 came to 244.9 billion euro, up (+2.6%, equal to +6.1 billion euro) compared to 31 December 2016, mainly as a result of net inflows (+4.8 billion euro). The trend in inflows is attributable to the contribution of mutual funds (+4.9 billion euro) and institutional mandates (+0.3 billion euro), mostly concentrated in insurance contracts, which more than offset the outflows relating to the retail sale of portfolio management schemes (-0.4 billion euro).

As at 30 June 2017, Eurizon Capital's market share of assets under management was 15.1% (gross of duplications and excluding the closed-end funds segment, in which the company does not operate), up since the beginning of the year.

Operating income came to 369 million euro in the first half of 2017, up 23.4% compared to the same period of the previous year, mainly due to the positive performance of net fee and commission income, supported in particular by management fees related to the development of average assets under management. The incentive commissions collected on the products managed, though of a modest amount, developed positively. Operating costs rose (+12.5%) due to personnel and administrative expenses, as a result of the change in the operational structures triggered by the increase in volumes under management. As a result of the above revenue and cost trends, the operating margin came to 297 million euro, up 26.4%. The Division closed the first half of 2017 with net income of 235 million euro (+31.3%).

With regard to significant corporate events, in the first half of 2017 a sale contract was finalised in respect of the disposal of the entire stake held in Allfunds Bank to funds affiliated with Hellman & Friedman, a leading private equity investor, and GIC, Singapore's sovereign wealth fund, for a consideration of around 900 million euro. In application of IFRS 5, the equity investment was reclassified in the balance sheet under "Non-current assets held for sale and discontinued operations".

<b>Business</b>	Asset management.
<b>Mission</b>	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.
<b>Organisational structure</b>	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon Associati SGR	Specialised in active portfolio management, and in particular in quantitative and multi-strategy management, with total return investment objectives. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Banca IMI.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital S.A., established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital S.A., 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 mutual funds intended for institutional investors, 50% owned by Eurizon Capital SGR and 50% by AFB SAM Holdings S.L. (Santander Group), for which a sale agreement was finalised.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, that conducts research and provides investment and advisory services.
Qingdao Yicai Wealth Management Co. Ltd.	A Chinese company headquartered in Qingdao, established on 30 September 2016. The company is 20% owned by Eurizon Capital SGR, 55% owned by Intesa Sanpaolo and 25% owned by Fideuram-Intesa Sanpaolo Private Banking.

**Insurance**

Income statement	30.06.2017	30.06.2016	(millions of euro)	
			Changes amount	%
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	599	675	-76	-11.3
Profits (Losses) on trading	-	-	-	-
Other operating income (expenses)	-4	-2	2	
<b>Operating income</b>	<b>595</b>	<b>673</b>	<b>-78</b>	<b>-11.6</b>
Personnel expenses	-39	-33	6	18.2
Other administrative expenses	-45	-41	4	9.8
Adjustments to property, equipment and intangible assets	-1	-1	-	-
<b>Operating costs</b>	<b>-85</b>	<b>-75</b>	<b>10</b>	<b>13.3</b>
<b>Operating margin</b>	<b>510</b>	<b>598</b>	<b>-88</b>	<b>-14.7</b>
Net adjustments to loans	-	-	-	-
Net provisions and net impairment losses on other assets	-	-9	-9	
Other income (expenses)	-3	-	3	-
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (Loss)</b>	<b>507</b>	<b>589</b>	<b>-82</b>	<b>-13.9</b>
Taxes on income	-138	-184	-46	-25.0
Charges (net of tax) for integration and exit incentives	-2	-2	-	-
Effect of purchase price allocation (net of tax)	-10	-11	-1	-9.1
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>357</b>	<b>392</b>	<b>-35</b>	<b>-8.9</b>

	30.06.2017	31.12.2016	(millions of euro)	
			Changes amount	%
Assets under management	147,975	144,321	3,654	2.5
Risk-weighted assets	-	-	-	-
Absorbed capital	4,289	4,186	103	2.5

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

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

In the first half of 2017, the Insurance Division reported income from insurance business of 599 million euro, showing a decline of 76 million euro (-11.3%) compared to the same period of the previous year, primarily due to the lower net investment result. In the presence of an increase in operating costs (+10 million euro), the operating margin stood at 510 million euro (-14.7%) and net income amounted to 357 million euro (-8.9%).

Direct deposits from insurance business, amounting to 147,975 million euro, increased by 3.7 billion euro (+2.5%) compared to the end of December 2016, essentially as a result of higher financial liabilities for the insurance segment designated at fair value. Collected premiums for life policies of the half-year amounted to 11 billion euro and were lower than in the first half of 2016. During the period the diversification of the product range continued, in favour of efficient products in terms of capital absorption. Collected premiums for the non-life business, amounting to 233 million euro, recorded a favourable performance on the first six months of the previous year, with growth recorded in all product lines. The increase in deposits reflects the diversification strategy launched in 2016 and continued in 2017, with the marketing of new products linked to the health and accident segments, and with a product range dedicated to small and medium-sized enterprises.

During the half-year, the Insurance Division expanded its commercial offering by launching the new multi-line policy "Fondi Stabilità<sub>insurance</sub>", a medium/long-term investment that offers a platform of underlying assets that feature guarantees, protection and performance opportunities to freely allocate assets with a view to portfolio management with a high degree of delegation

and advisory services. As regards the non-life business, a framework agreement was entered into with the international insurance broker AON to develop specific insurance programmes for Group customers.

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<b>Business</b>	Life and Non-Life Insurance.
<b>Mission</b>	Develop the offering of insurance products for the Group's customers.
<b>Organisational structure</b>	
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, Intesa Sanpaolo Assicura and Intesa Sanpaolo Smart Care, a company specialising in the creation of innovative digital solutions to combine with insurance products.
Intesa Sanpaolo Life	Specialised in life insurance products with a higher financial content, such as unit-linked products and life insurance policies linked to internal funds.
Intesa Sanpaolo Assicura	Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection.
Intesa Sanpaolo Smart Care	Dedicated to marketing hardware and software products and providing electronic assistance services.
Fideuram Vita	Specialised in offering insurance, pension and personal and asset protection products in service of the Private Banking Division.

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## 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 generated a negative operating margin of 774 million euro in the first half of 2017, compared to a flow of -623 million euro in the corresponding period of the previous year. Gross income, net of the public contribution of 3,500 million euro related to the Venetian banks operation, amounted to -1,172 million euro (-1,264 million euro in the first six months of 2016). The half-year ended with a net loss of 1,290 million euro (also net of the aforementioned contribution), higher compared to the -1,007 million euro recorded in the first half of the previous year, mainly due to the charges related to the Atlante Fund established to tackle the banking crisis (301 million euro).

## Capital Light Bank

In the first half of 2017 the ordinary and extraordinary transactions carried out on the assets held by the Capital Light Bank continued with the aim of reducing the non-core assets. In particular, the assets contributed with the definition of the 2014-2017 Business Plan were reduced by over 3.6 billion euro compared to the beginning of the year, bringing the total deleveraging since 2013 to 21 billion euro; considering the extended scope (including the assets contributed after the definition of the Business Plan), the decrease amounts to more than 24 billion euro. At the end of February, the reorganisation of consumer credit was completed with the incorporation into the Parent Company of Accedo, the product company specialised in the extra-captive channel; therefore, the Banca dei Territori Division remains the only Division designated to develop this product for all Group's customers. With regard to the bad loan portfolio under management, the recovery activity continued, both internally and through external servicers, with collections of more than 800 million euro in the first six months of 2017, which confirm the improvement trend under way for several quarters. This result was also achieved thanks to initiatives aimed at improving recovery performances, setting up dedicated incentive systems. In June, the assignment to Christofferson Robb & Company and Bay View A.M. of a portfolio of bad loans amounting to around 2 billion euro was finalised. That transaction, regarding significantly vintage positions which are mainly unsecured, complied with the strategy of promoting internal skills for recovery, using the market of non-performing loans where it could accelerate the reduction of non-performing loans while being consistent with financial statement constraints. Re.O.CO. carried out activities with a view to 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, by choosing the interventions so as to maximise the recovery of bad positions secured by real-estate assets with the goal of minimising the investment of additional capital. In the first six months, against supporting action and direct participation in auctions for about 80 properties, approximately 15 million euro of properties were bought. Concerning the international subsidiaries, the deleveraging and derisking activities involving the Ukrainian Pravex bank and the FUT Division of the Hungarian subsidiary CIB Bank continued, in line with the Bank's business plan. In addition, interventions aiming to accelerate a reduction were carried out on the non-strategic equity investments, loans towards public counterparties and project finance.

## 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 the year, Intesa Sanpaolo continued to carry out its role in various projects, confirming its role as a critical participant on the ECB settlement platforms (Target2 and Target2 Securities) and cooperating in relation to "Instant Payments". The work of the Task Force on the future of the RTGS Services (Real Time Gross Settlement System) continued. At the beginning of May the Market Consultation was launched with the goal of defining the user requirements which will constitute the base functionalities of the new system of real-time electronic settlement of transactions.

As regards the money market, in the initial months of the year attention was focused on the rise inflation in Europe and, subsequently, in June, the removal of references to the possibility of lower interest rates in the forward guidance provided by the European Central Bank. The short-term euro curves remained stable on that leg up to the end of 2017 and in a rather low trading range near the start of the new year. In March the fourth auction was held of the T-LTRO II programme, in which Intesa Sanpaolo participated for an amount of 12 billion euro, taking the total funding to around 57 billion euro. Lastly, please note that, as a result of the acquisition of certain assets and liabilities and certain legal relationships of Veneto Banca and Banca Popolare di Vicenza - a transaction finalised in the last few days of the half-year - the total funding through ECB long-term auctions rose to 63.8 billion euro. The Federal Reserve, for its part, increased the official interest rates by 25 basis points both during the March window and the June window, adopting a decisive approach to the outlook for growth and the future performance of inflation in the United States. The amount of Intesa Sanpaolo's short-term securities funding programmes declined in the first quarter, mainly due to the effect of negative interest rates, while in the second quarter, the outstanding stock showed a slight increase due to several transactions of significant amounts with 13-month maturities.

Concerning the government bond portfolio, investment strategies were aimed at reducing the risk in January, and exploiting market dynamics to re-establish positions on bonds issued by governments and state agencies of semi-core and peripheral countries in February and March.

Those positions were significantly reduced in the second quarter, always preserving the need to maintain a sufficient stock of liquidity reserves. As regards repo transactions, following a significant increase in volumes in the first part of the year, they remained substantially unchanged in the second quarter. The spread between repo rates on the government bonds of core countries and those on Italian government bonds tightened slightly, in line with the previous quarter, with an exception at the end of the half-year, when spreads expanded in line with the interest rates at the end of March. Italian repo rates stood at levels just below that of the depo facility.

In terms of medium/long-term funding operations, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 1.4 billion euro in the half-year. Among the securities placed, there was a prevalence of the component consisting of structured financial instruments (primarily represented by index-linked structures) at 91%. The residual share consisted of plain-vanilla instruments. A breakdown by average maturity shows that 7% is comprised of financial instruments with 2- and 3-year maturities, 64% is represented by 4-, 5- and 6-year securities and the remaining 29% by 7-, 8- and 10-year securities.

On the international markets, medium/long-term funding was completed for a total of 7.3 billion euro through the issue of senior and subordinated bonds as well as, to a minimum extent, certificates, placed on the Euromarket with institutional investors. In particular, the following public transactions were performed in the half-year: a fixed-rate senior security targeted at the Euromarket for 1 billion euro (with a 7-year maturity), a fixed-rate Additional Tier 1 subordinated security targeted at the international markets for 1.25 billion euro (they are perpetual instruments with maturity equal to the duration of Intesa Sanpaolo as per its articles of association, which may be redeemed in advance by the issuer after 10 years from the date of issue and subsequently on each coupon payment date), a floating-rate senior security for 1.5 billion euro (with 5-year maturity), a fixed-rate Additional Tier 1 subordinate security for 750 million euro which has characteristics in line with the "CRD IV" regulations (they are perpetual instruments with maturity equal to the duration of Intesa Sanpaolo as per its articles of association, which may be redeemed in advance by the issuer after 7 years from the date of issue and subsequently on each coupon payment date) and a fixed-rate "Green Bond" for 500 million euro with 5-year maturity (this is the first bond issued by an Italian bank to finance projects dedicated to renewable energy). As part of the covered bond issue programmes used as collateral for transactions in the Eurosystem, for the multi-originator programme guaranteed by ISP OBG, the 9th and 10th series expiring in 2017 were redeemed in advance in February, for 1.4 billion euro each. Following these redemptions, the 23rd and 24th floating-rate series were issued for the same amount with a maturity of 9 and 10 years respectively. All the securities, which are listed on the Luxembourg Stock Exchange and rated A High by DBRS, were subscribed by the Parent Company and are eligible on the Eurosystem. Instead, as part of the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was redeemed partially for an amount of 500 million euro. In May the 13th series was issued for 1.65 billion euro, at a floating rate and maturing in 7 years. As part of the covered bond issue programme guaranteed by ISP CB Ipotecario, in June a new issue of covered bonds was placed on the institutional market, the 22nd fixed-rate series, for 1 billion and a 10-year maturity. The securities are listed on the Luxembourg Stock Exchange and rated Aa2 by Moody's.

As regards management of the collateral eligible for refinancing operations at central banks, Intesa Sanpaolo uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators". At the end of June 2017, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was 11.4 billion euro.

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### Active Value Management (AVM)

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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

	Italy	Europe	Rest of the World	(millions of euro) Total
<b>Operating income</b>				
30.06.2017	6,372	1,647	538	8,557
30.06.2016	6,589	1,523	529	8,641
% change <sup>(a)</sup>	-3.3	8.1	1.7	-1.0
<b>Loans to customers</b>				
30.06.2017	329,812	49,862	13,843	393,517
30.06.2017 (Excluding operations acquired)	305,748	49,498	13,843	369,089
31.12.2016	306,142	43,773	14,798	364,713
% change <sup>(b)</sup>	-0.1	13.1	-6.5	1.2
<b>Direct deposits from banking business</b>				
30.06.2017	349,315	55,945	6,788	412,048
30.06.2017 (Excluding operations acquired)	319,696	55,648	6,788	382,132
31.12.2016	329,438	57,902	6,458	393,798
% change <sup>(b)</sup>	-3.0	-3.9	5.1	-3.0

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

<sup>(a)</sup> The change expresses the ratio between 30.06.2017 and 30.06.2016.

<sup>(b)</sup> The change expresses the ratio between 30.06.2017 excluding operations acquired and 31.12.2016.

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 74% of revenues, 83% of loans to customers and 84% of direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation and in the Mediterranean area (Egypt). As regards the performance of operations in the first half of 2017, loans to customers were substantially stable in Italy, up in Europe and down in the rest of the world, while direct deposits from banking business showed declining volumes in Italy and Europe and rising volumes in the rest of the world. As regards the operating income, the decline recorded in Italy was offset, though with more contained absolute values, by an increase in Europe and in the rest of the world.

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# Risk management

## MAIN RISKS AND UNCERTAINTIES

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

Group liquidity remains high: as at 30 June 2017, both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted also as internal liquidity risk measurement metrics, were well above the requirements for 2018. At the end of June, the eligible liquidity reserves for the Central Banks - including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca - came to 159 billion euro (150 billion euro at the end of December 2016), of which 81 billion euro, net of haircut, was unencumbered (96 billion euro at the end of December 2016).

The loan to deposit ratio at the end of June 2017, calculated as the ratio of loans to customers to direct deposits from banking business, including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, came to 96%.

In terms of funding, the widespread branch network remains a stable, reliable source: 73% of direct deposits from banking business come from retail operations (279 billion euro). Moreover, during the half 2 billion euro in Additional Tier 1 instruments, 2.5 billion euro in senior Eurobonds, 1 billion euro in covered bonds and 500 million euro in green bonds were placed on the international markets.

With regard to the targeted refinancing operation TLTRO II, at the end of June 2017, the Group's participation amounted to 57 billion euro, equal to the maximum borrowing allowance (45 billion euro as at 31 December 2016). Including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the amount as at 30 June 2017 is equal to approximately 64 billion euro.

The Intesa Sanpaolo Group's leverage (6.4% as at 30 June 2017) 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 2017 are calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

At the end of the half, total Own Funds came to 51,537 million euro, against risk-weighted assets of 301,699 million euro, which reflected primarily the credit and counterparty risk and, to a lesser extent, the operational and market risk.

The Total Capital Ratio stood at 17.1%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 12.5%.

With regard to the extraordinary circumstances which led, at the end of the first half, to the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, the Common Equity Tier 1 capital includes – as the regulatory conditions for its inclusion pursuant to art. 26, paragraph 2 of the CRR were met – the 3.5 billion euro contribution received on 26 June 2017 by the government to ensure the absolute neutrality of the operation for CET 1 Ratio purposes. This amount, which is included in net income for first half of 2017, will not be distributable as dividend.

Conversely, the portion of net income exceeding the aforementioned 3.5 billion euro was not included in CET 1, since its inclusion will not be required until it exceeds the dividend announced to the market (3.4 billion euro for 2017).

The Group's risk profile remained within the limits approved by the Risk Appetite Framework, consistent with the intention to continue to privilege commercial banking operations.

In relation to market risk, the Group's average risk profile during the first half of 2017 was approximately 78 million euro, compared to an average amount of approximately 101 million euro in the same period of 2016. The trend in the Group's VaR in the first six months of 2017 - mainly determined by Banca IMI - is described in greater detail later in this chapter.

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

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.

With regard to performing loans to customers, the "collective" adjustments, equal to 1,555 million euro, provide a coverage ratio of 0.5% (unchanged compared to the end of 2016).

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 (28%).

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 82% using level 1 inputs, around 16% 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 (approximately 90%) were measured using the level 2 approach.

As regards the Intesa Sanpaolo Group's sovereign debt exposure, at the end of June exposure in securities to the Italian government amounted to a total of approximately 84 billion euro, in addition to receivables for approximately 14 billion euro.

Investment levels in structured credit products and hedge funds remained low. The former generated a positive contribution of 21 million euro during the half year. Also for the hedge funds, the economic result of the investments in this segment was positive and amounted to 8 million euro.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly delicate. However, with regard to intangible assets and goodwill, no problem issues were identified during the half – also in consideration of the short length of time since the last impairment test – requiring the remeasurement of their recoverable values. In particular, with regard to goodwill, the analyses conducted showed no significant changes to the main parameters and macroeconomic aggregates which could have an impact on the Group's expected cash flows and on the discounting rates thereof based on the models used to verify the retention of the recognition value of the intangible asset in the financial statements.

## THE BASIC PRINCIPLES OF RISK MANAGEMENT

The Intesa Sanpaolo Group's risk acceptance and governance policies are defined by the Board of Directors; the Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency and functionality of the risk management process and of the Risk Appetite Framework. The Board of Directors carries out its tasks with the support of 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 Steering Committee, as well as by the Chief Risk Officer, reporting directly to the Chief Executive Officer.

The Chief Risk Officer is responsible for: (i) governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved; (ii) setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments; (iv) ensuring the management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.

The Parent Company performs a guidance and coordination role with respect to the Group Companies, aimed at ensuring effective and efficient risk management at Group level. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.

Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the group controls.

The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss the Group might incur over a year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

## BASEL 3 REGULATIONS AND THE INTERNAL PROJECT

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

With regard to credit risk, compared to the situation as at 31 December 2016, the following changes are reported as at 30 June:

- on 9 March the Group received from the ECB the authorisation relating to the Banks and Public Sector Entities portfolios, valid from the Supervisory reporting as at 30 June 2017;
- on 18 April 2017, the Group received the authorisation from the ECB to use the new internal rating systems (PD) and LGD for the Corporate portfolio, valid from the Supervisory reporting as at 30 June 2017. The scope of the authorisation also extends to the subsidiaries Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Bank Luxembourg. The Slovak subsidiary, Vseobecna Uverova Banka (VUB), uses this model only for counterparties with a turnover of more than 500 million euro;
- on 31 March, the Slovenian subsidiary, Banka Intesa Sanpaolo (formerly Banka Koper), received the authorisation from the ECB to use the internal rating systems (PD-FIRB) for the Corporate portfolio, valid from the Supervisory reporting as at 31 March 2017.
- on 7 March, the Slovak subsidiary, Vseobecna Uverova Banka (VUB), received the authorisation from the ECB to use the new internal rating model for the Retail Mortgage regulatory segment, valid from the Supervisory reporting as at 31 March 2017. The first report was presented on 30 June 2017;
- on 9 March the Group received the authorisation from the ECB to extend the internal rating system based on the PD/LGD approach to the Banking Book Equity instruments for the purpose of calculating the capital requirements, valid from the Supervisory reporting as at 30 June 2017.

The credit exposures included in the scope of operations acquired from Veneto Banca S.p.A. and Banca Popolare di Vicenza S.p.A. (former Venetian banks) are evaluated, with reference to 30 June 2017, with the standardised approach. They will migrate to the internal rating systems according to a plan that will be agreed with the Supervisory Authority.

The development and application of IRB systems for the other segments and the extension of the scope of companies is proceeding according to the Group's Basel 3 roll-out plan.

The situation as at 30 June 2017 is shown in the following table:

Company	Corporate	Corporate	Mortgage	SME Retail	Banks and Public	Banking Book
	FIRB	AIRB LGD	IRB LGD	IRB LGD	Entities IRB	Equity IRB
Intesa Sanpaolo	Dec - 2008	Dec - 2010	Jun - 2010	Dec - 2012	Jun - 2017	Jun - 2017
Banco di Napoli						
Cassa di Risparmio del Veneto						
Cassa di Risparmio di Bologna						
Cassa di Risparmio del Friuli Venezia Giulia						
Cassa dei Risparmi di Forlì e della Romagna						
Gruppo Cassa di Risparmio di Firenze	Dec - 2009					
Mediocredito Italiano	Dec - 2008	Dec - 2010	n.a.	Dec - 2012	Jun - 2017	n.a.
Banca Prossima	n.a.	Dec - 2013	n.a.	Dec - 2013	Jun - 2017	n.a.
Banca IMI	n.a.	Jun - 2012	n.a.	n.a.	Jun - 2017	n.a.
IMI Investimenti	n.a.	n.a.	n.a.	n.a.	n.a.	Jun - 2017
Intesa Sanpaolo Bank Ireland	Mar - 2010	Dec - 2011	n.a.	n.a.	n.a.	n.a.
Vseobecna Uverova Banka	Dec - 2010	Jun - 2014	Jun - 2012	Jun - 2014	n.a.	n.a.
Banka Intesa Sanpaolo d.d.	Mar - 2017	n.a.	n.a.	n.a.	n.a.	n.a.
Intesa Sanpaolo Bank Luxembourg	n.a.	Jun - 2017	n.a.	n.a.	n.a.	n.a.

With regard to counterparty risk, the Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.

For reporting purposes, the Parent Company, Banca IMI and the banks of the Banca dei Territori Division are authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for OTC derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending).

This authorisation was obtained for the derivatives of Banca IMI and the Parent Company from the first quarter of 2014, and for the SFTs from the reporting as at 31 December 2016. The banks of the Banca dei Territori Division received the same authorisation for derivatives from the report as at 31 December 2016.

For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company and Banca IMI since 2010 and were subsequently extended in 2015 to the Banca dei Territori Division and to Securities Financing Transactions.

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

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2017.

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](http://group.intesasanpaolo.com)) on a quarterly basis.

## CREDIT RISK

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

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

The Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.

In particular, with respect to loans to customers, risk is measured using internal rating models which change according to the counterparty's operating segment.

Regarding the new models to be applied to the Corporate portfolio, for which the authorisation was mentioned, steps were taken to broaden the information set used for counterparty evaluation using the PD and to simplify the framework and number of the models. Finally, various measures have been adopted that are aimed at favouring a through-the-cycle profile of the probabilities of default produced by the models, consistently with the relational-type commercial approach adopted by the Group. With regard to the LGD, the most significant change is represented by the development of the model dedicated to non-performing loans.

As regard the model for determining the probability of default for the Banks portfolio, the choice was made to differentiate between models for banks in mature economies and banks in emerging countries. In short, the model consists of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component representing systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module ("relationship manager's judgement") that allows the rating to be modified in certain conditions. The Loss Given Default (LGD) calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

In the Public Sector Entities portfolio, the reference models have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of financial statement assessments (notching). As regards the LGD estimate of the Public Sector Entities segment, the methodological framework is substantially similar to that used for the development of the LGD models of the already validated segments (Corporate, Retail SME, Retail Mortgage).

Concerning VUB, the updating of the PD and LGD models for the Retail Mortgage segment consisted in a broadening and optimisation of the information set used by the models and their re-calibration to take into account the improvement in Slovakia's economic cycle.

Regarding Banka Intesa Sanpaolo (formerly Banka Koper), the new PD model for the Corporate segment assesses the creditworthiness of the counterparties using both a quantitative and a qualitative component. The quantitative component consists of two main statistic modules: the first considers the financial statements, while the second the performance figures of the counterparty. A questionnaire completed by the manager and a thorough analysis of the customer may, subsequently and under specific conditions, change the final rating of the counterparty.

Regarding the Banking Book Equity instruments, based on EU Regulation 575/2013, the Group decided to adopt the PD/LGD method due to the fact that the investments in the scope are held for a medium-term investment period, that this method is consistent with the treatment of the rest of the Banking Book portfolio and that it is less exposed to model risk (unlike market oriented models). More specifically, the approach chosen requires the PDs to be determined in compliance with the IRB methods applied for exposures towards companies with the introduction of floors (which range from a minimum of 0.09% to a maximum of 1.25% according to the type of instrument); the exposures represented by private equity instruments included in sufficiently diversified portfolios may be attributed a regulatory LGD of 65%, while all the other exposures will have an LGD of 90%.

### Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. The quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of detecting any symptoms of difficulty and promote corrective measures to prevent possible deterioration of credit risk.

Positions are detected and automatically entered in the credit management processes by way of daily and monthly checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring.

Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the regulatory provisions on credit quality:

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

The category of non-performing loans also includes past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.

Lastly, non-performing exposures also include the individual forbore exposures which comply with the definition of "Non-performing exposures with forbearance measures" envisaged by the EBA ITS (European Banking Authority - Implementing Technical Standards), which are not a separate category of non-performing assets, but rather a sub-category. Similarly, exposures characterised by "forbearance measures" are also included among performing loans.

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

	30.06.2017						31.12.2016			Changes			
	Gross exposure			Total adjustments			Net exposure			Gross exposure	Total adjustments	Net exposure	Net exposure
	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)	Consolidated figure (a)	Of which: figure of operations acquired (b)	Consolidated figure excluding operations acquired (c) = (a) - (b)				
Bad loans	35,386	-	35,386	-21,466	-	-21,466	13,920	-	13,920	37,834	-22,939	14,895	-975
Unlikely to pay	18,821	-	18,821	-5,275	-	-5,275	13,546	-	13,546	19,745	-5,310	14,435	-889
Past due loans	427	-	427	-91	-	-91	336	-	336	558	-121	437	-101
<b>Non-performing loans of which forbore</b>	<b>54,634</b>	<b>-</b>	<b>54,634</b>	<b>-26,832</b>	<b>-</b>	<b>-26,832</b>	<b>27,802</b>	<b>-</b>	<b>27,802</b>	<b>58,137</b>	<b>-28,370</b>	<b>29,767</b>	<b>-1,965</b>
Performing loans	354,144	24,398	329,746	-1,728	-173	-1,555	352,416	24,225	328,191	322,130	-1,607	320,523	7,668
of which forbore	7,755	880	6,875	-207	-20	-187	7,548	860	6,688	8,036	-208	7,828	-1,140
Performing loans represented by securities of which forbore	13,510	217	13,293	-211	-14	-197	13,299	203	13,096	14,651	-228	14,423	-1,327
	94	-	94	-1	-	-1	93	-	93	97	-1	96	-3
<b>Loans to customers</b>	<b>422,288</b>	<b>24,615</b>	<b>397,673</b>	<b>-28,771</b>	<b>-187</b>	<b>-28,584</b>	<b>393,517</b>	<b>24,428</b>	<b>369,089</b>	<b>394,918</b>	<b>-30,205</b>	<b>364,713</b>	<b>4,376</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. have not been restated.

As at 30 June 2017, the Group's non-performing loans, net of adjustments, came to 27.8 billion euro, below the levels of the end of 2016 (-6.6%), and confirming the gradual decrease shown during the last year. Compared to the end of December 2016, there was also a decrease in non-performing assets as a percentage of total net loans to customers, down to 7.5% from 8.2% at the end of 2016. By including the loans to customers of Banca Popolare di Vicenza and Veneto Banca, the impact of non-performing loans drops further to 7.1%.

In further detail, bad loans came to 13.9 billion euro, net of adjustments, at the end of the first half of 2017, down (-6.5%) from the beginning of the year, also based on the settlements and transfers carried out, and represented 3.8% of total loans (3.5% including the two Venetian banks), compared to 4.1% at the end of 2016. During the same period, the coverage ratio stood at 60.7% (60.6% in December 2016). Loans included in the unlikely to pay category amounted to 13.6 billion euro, down by 6.2%, accounting for 3.6% of total loans to customers (3.4% including the two Venetian banks), with a coverage ratio of 28% (26.9% in December 2016). Past due loans amounted to 336 million euro, down 23.1% since the beginning of the year, with a coverage ratio of 21.3%. 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 due to financial difficulty by the debtor) at the European level. Within the non-performing loan category, forbore exposures amounted to 7.8 billion euro, with an average coverage ratio of 32.2%, whereas those in the performing loan category were slightly lower (6.7 billion euro).

The overall coverage ratio of performing loans was 0.5%.



## 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 2% 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 units 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.

Please note that the market risk measurements as at 30 June 2017 include the items from the segregated scope formerly of Banca Popolare di Vicenza and Veneto Banca, based on the information available as at the date of preparation of the financial statements.

**Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI<sup>(a)</sup>**

During the second quarter of 2017, the market risks generated by Intesa Sanpaolo and Banca IMI decreased compared to the average values of the first quarter of 2017. The average VaR for the period totalled 70 million euro compared to 85.3 million euro of March 2017.

(millions of euro)

	2017				2016			
	average 2 <sup>nd</sup> quarter	minimum 2 <sup>nd</sup> quarter	maximum 2 <sup>nd</sup> quarter	average 1 <sup>st</sup> quarter	average 4 <sup>th</sup> quarter	average 3 <sup>rd</sup> quarter	average 2 <sup>nd</sup> quarter	average 1 <sup>st</sup> quarter
Intesa Sanpaolo	11.6	9.6	12.4	11.5	11.7	11.5	11.5	14.9
Banca IMI	58.4	52.9	63.7	73.7	63.8	90.6	85.5	90.0
<b>Total</b>	<b>70.0</b>	<b>62.5</b>	<b>75.5</b>	<b>85.3</b>	<b>75.6</b>	<b>102.2</b>	<b>97.0</b>	<b>104.9</b>

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

Compared to last year, the risk measures for the first half have decreased: for 2017 an average group VaR of 78 million was recorded whilst in 2016 the average amounted to approximately 101 million euro.

(millions of euro)

	2017			2016		
	average 1 <sup>st</sup> half	minimum 1 <sup>st</sup> half	maximum 1 <sup>st</sup> half	average 1 <sup>st</sup> half	minimum 1 <sup>st</sup> half	maximum 1 <sup>st</sup> half
Intesa Sanpaolo	11.5	9.2	12.5	13.2	10.2	17.5
Banca IMI	66.2	52.9	93.2	87.7	64.8	122.4
<b>Total</b>	<b>77.8</b>	<b>62.2</b>	<b>104.8</b>	<b>100.9</b>	<b>78.4</b>	<b>134.0</b>

<sup>(a)</sup> 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 2017 with regard to the various factors shows the prevalence of the risk generated by credit spread, which produced 34% of total operational VaR; for Banca IMI too credit spread risk was the most significant, representing 77% of total operational VaR.

**Contribution of risk factors to total VaR<sup>(a)</sup>**

2 <sup>nd</sup> quarter 2017	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	5%	4%	25%	34%	30%	2%	0%
Banca IMI	5%	0%	7%	77%	1%	6%	4%
<b>Total</b>	<b>5%</b>	<b>1%</b>	<b>10%</b>	<b>69%</b>	<b>6%</b>	<b>5%</b>	<b>4%</b>

<sup>(a)</sup> 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 2017, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The trend in VaR is mainly attributable to Banca IMI.

During the first quarter of 2017 an increase in risks was recorded, due initially to a "scenario" effect (at the beginning of February a particularly volatile scenario was recorded for the credit spread risk factor) and subsequently to an increase in risks in the credit and equity sector. In the last month of the first quarter, the VaR recorded a decline due to the technical effect linked to the passage of time, whereby past scenarios, at the time volatile, assume, with the passing of days, a lower weighting in the calculation of risks.

In the second quarter of 2017, in addition to the abovementioned technical effect, according to which the "Brexit scenario" has been phased out of the VaR calculation period, a further decline in risks was recorded due to a reduction in the securities portfolio.



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 following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-43	14	-35	27	295	-289	27	-7	4	-1

In particular:

- on stock market positions, a 15% decrease in stock prices with a resulting 25% increase in volatility would have led to a loss of approximately 43 million euro;
- on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 35 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 289 million euro loss;
- on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 7 million euro would be recorded;
- lastly, for commodity exposures potential losses would be recorded for an amount equal to 1 million euro in case of a 20% increase in prices of commodities (accompanied by a reduction in the price of gold of 15%).

**Backtesting**

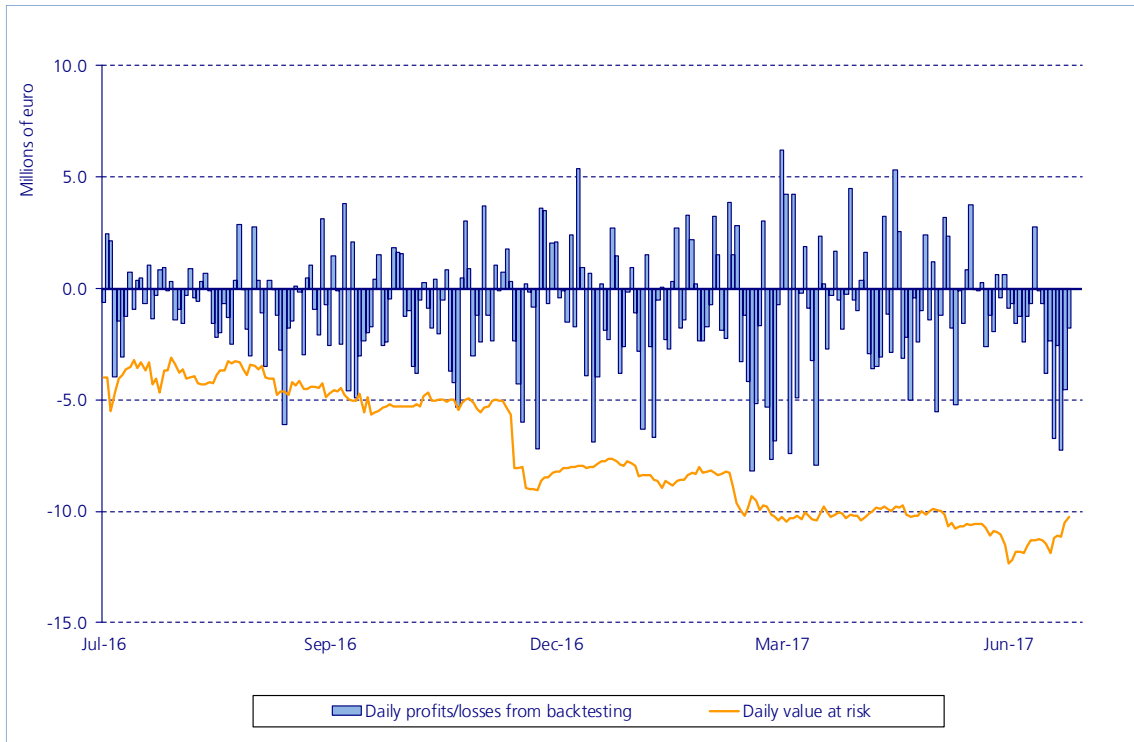
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

- 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.

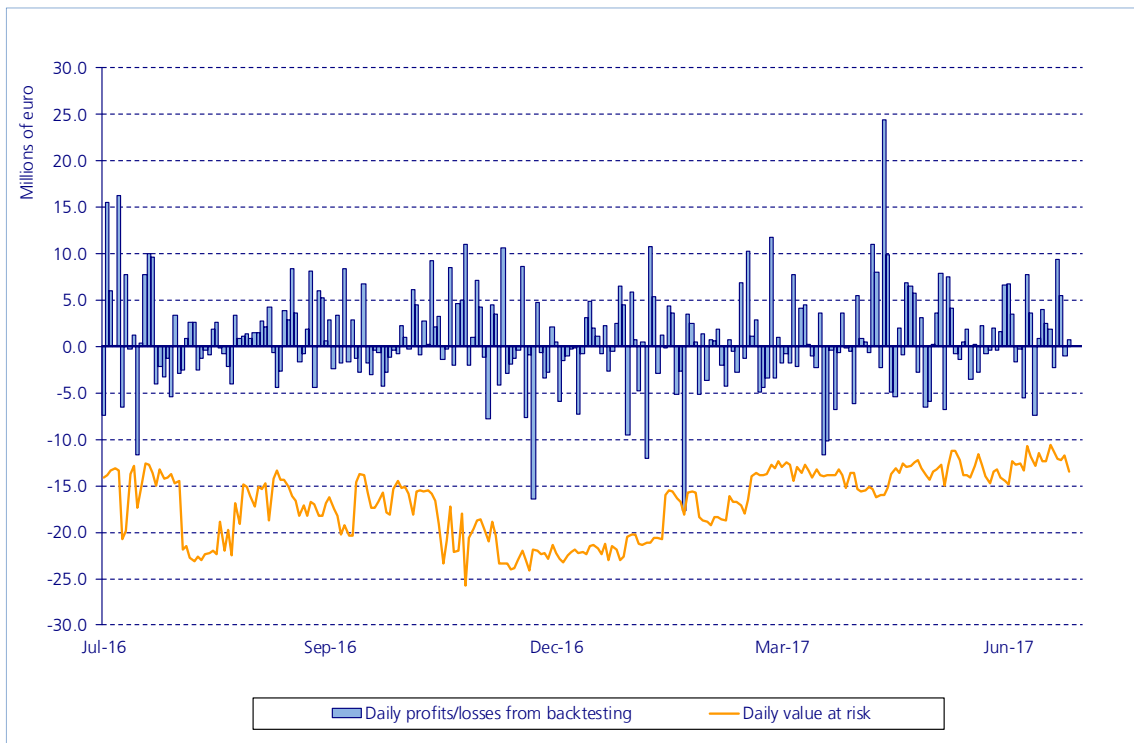
### Backtesting in Intesa Sanpaolo

In the past twelve months, there has been only one actual backtesting exception tied to interest rate movements.



### Backtesting in Banca IMI

In the past twelve months, there were no backtesting exceptions.



## BANKING BOOK

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

The following methods are used to measure financial risks of the Group's banking book:

- Shift sensitivity of value (EVE);
- Value at Risk (VaR);
- Shift sensitivity of net interest income (NII);

The sensitivity of economic value (EVE) measures the change in the economic value of the Group's commercial portfolio following shocks in the market rates curves. The sensitivity of EVE is calculated by adopting various interest rate shock scenarios that consider not only parallel shifts in market curves, but also a range of potential scenarios that include conditions of severe stress with regard to the shape of the curve, the level of the current maturity structure of interest rates and historic and implicit rate volatility. The standard shock is defined as a parallel, uniform shift in the curve of +100 basis points. The measurements include an estimate of the prepayment effect and of the risk originated by on demand customer deposits, whose features of stability and of partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits. Equity risk sensitivity is measured as the impact of a price shock of  $\pm 10\%$ .

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).

Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

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 sensitivity of net interest income focuses the analysis on the impact that changes in interest rates can have on the Group's ability to generate stable profit levels. The component of profits measured is represented by the difference between the net interest income generated by interest-bearing assets and liabilities, including the results of hedging activities through the use of derivatives. The time horizon of reference is commonly limited to the short and medium term (from one to three years) and assesses the impact that the institution is able to continue with its activity (the going concern approach).

To determine changes in net interest income ( $\Delta NII$ ), standard scenarios of parallel rate shocks of  $\pm 50$  basis points are applied, in reference to a time horizon of twelve months.

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 entered into 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 demand deposits (core deposits) and on the already fixed portion of floating-rate loans.

In 2016 the Group consolidated the use of macrohedging for a portion of fixed-rate loans, adopting an open-portfolio macrohedging 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 floating-rate funding, to the extent that the latter finances fixed-rate investments, and on floating-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 compliance with international accounting standards.

The measurements concerning interest rate risk include the items from the segregated scope formerly of Banca Popolare di Vicenza and Veneto Banca, based on the information available as at the date of preparation of the Half-yearly financial statements.

In the first six months of 2017, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, recorded an average value of 1,052 million euro, settling at 1,046 million euro at the end of June 2017, almost entirely concentrated on the euro; this figure compares with 945 million euro at the end of 2016.

The sensitivity of net interest income – assuming a +50 and -50 basis point change in interest rates – amounted to 601 million euro and -740 million euro respectively, at the end of June 2017 (571 million euro and -665 million euro at the end of 2016).

Interest rate risk, measured in terms of VaR, recorded an average of 124 million euro in the first six months of 2017 (117 million euro at the end of 2016), with a maximum value of 153 million euro and a minimum value of 85 million euro; the latter figure coincides with the value at the end of June 2017. 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 134 million euro in the first six

months of 2017 (161 million euro at the end of 2016), with a minimum value of 107 million euro and a maximum value of 146 million euro; that figure compares with a value of 107 million euro at the end of June 2017. Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above listed assets recorded in the AFS category shows a sensitivity to a 10% negative shock equal to 11.9 million euro at the end of June 2017.

## 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 “Guidelines for Group Liquidity Risk Management” contain the latest regulatory provisions on liquidity risk and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of such risk, thereby preventing the emergence of crisis situations.

In particular, from an organisational standpoint, a detailed definition is prepared of the tasks assigned to the Board of Directors and reports are presented to 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, 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 - LCR) 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), the minimum regulatory threshold for which is 80% (100% after the 1 January 2018), is aimed at strengthening the short-term liquidity risk profile, ensuring the holding of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario, as defined by Delegated Regulation (EU) 2015/61.

The aim of Intesa Sanpaolo Group’s structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum “acceptable” amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR’s regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU). The Guidelines for Group Liquidity Risk Management also envisage the time extension of the stress scenario for the LCR indicator, provided by the regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. For this purpose, the internal management guidelines also envisage a minimum limit on the LCR indicator up to 3 months, with a view to establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury Head Office Department and the Planning and Active Value Management Head Office Department were officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects.

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

In the first six months of the year, the Group’s liquidity position remained within the risk limits provided for in the current Group’s Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached a level well above the phased-in requirements. As at 30 June 2017, the eligible liquidity reserves for the Central Banks, considering cash components, came to 159 billion euro (156 billion euro at the end of March 2017), of which 81 billion euro, net of haircut, was unencumbered (82 billion euro at the end of March 2017).

The measurements include the items from the segregated scope formerly of Banca Popolare di Vicenza and Veneto Banca, based on the information available as at the date of preparation of the Half-yearly financial statements.

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 investments 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 2016, 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 Head Office 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. Underlying the definition of fair value is the assumption 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. Measurement at fair value presumes that the asset is sold or the liability transferred:

- a. in the principal active market for the asset or liability;
- b. in the absence of a major market, in the most advantageous active market for the asset or liability.

The entity is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Group generally operates.

The Group considers a market to be active when transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. An instrument is considered listed on an active market if prices reflecting normal market transactions are promptly and regularly available from stock exchanges, brokers, intermediaries, principal-to-principal markets, listing services or authorised entities and such prices are representative of effective, regular market transactions.

### Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

- fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date;
- fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach);
- fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the measurement techniques rather than the measurement techniques themselves.

### Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide – a document prepared and updated by the Financial and Market Risks Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the valuation of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in valuations carried out for third parties under Service Level Agreements, entered into in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.



The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Department, in terms of specific controls (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.

#### *Valuation of financial instruments and Model Risk Management*

The valuation of financial instruments entails the following phases:

- identification of the measurement sources: for each asset class, the Fair Value Policy and 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;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement 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 pricing 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. The validation process is particularly important when a new financial instrument is introduced to the operations, or when it is considered necessary to update the pricing models for already managed products. In both cases, the validation consists of adapting an existing pricing model or developing new pricing models. In all cases, the models used for the pricing are subject to an internal certification process that involves the various competent structures or independent companies, in highly complex or particularly critical cases;
- periodic monitoring of the consistency of the valuation models over time: the monitoring consists in checking the adherence to the market of the valuation model in order to promptly discover any gaps 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”).

#### *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 that may influence the valuation are included. These factors essentially involve:

- high and/or complex risk profile;
- illiquidity of the positions determined by temporary or structural market conditions or in relation to the amount of assets held (in case of excessive concentration);
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the measurement is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities are valued directly at mid-price, whereas for quoted securities with low liquidity the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).

Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and “quanto” correlation (connected to pay offs and index-linking expressed in different currencies).

The management process of the Mark-to-Market Adjustment 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 Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

## 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	30.06.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	13,777	29,847	791	10,685	31,978	950
<i>of which: Equities</i>	686	-	-	885	-	-
<i>of which: quotas of UCI</i>	803	49	151	584	86	165
2. Financial assets designated at fair value through profit or loss	68,521	1,026	471	62,341	1,072	452
<i>of which: Equities</i>	1,408	-	-	1,295	-	-
<i>of which: quotas of UCI</i>	63,128	-	126	57,438	-	127
3. Financial assets available for sale	135,514	6,071	2,977	137,354	6,341	2,997
<i>of which: Equities</i>	2,158	2,525	967	1,765	2,728	970
<i>of which: quotas of UCI</i>	8,102	102	1,475	7,942	30	1,663
4. Hedging derivatives	-	5,192	17	-	6,214	20
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>217,812</b>	<b>42,136</b>	<b>4,256</b>	<b>210,380</b>	<b>45,605</b>	<b>4,419</b>
1. Financial liabilities held for trading	13,686	28,579	252	12,983	31,541	266
2. Financial liabilities designated at fair value through profit or loss	-	63,017	-	-	57,187	-
3. Hedging derivatives	-	8,250	4	-	9,024	4
<b>Total</b>	<b>13,686</b>	<b>99,846</b>	<b>256</b>	<b>12,983</b>	<b>97,752</b>	<b>270</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. The figures for comparison have not been restated.

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: 1.6% for financial assets and 0.2% for financial liabilities.

Approximately 82% 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, please note that the following transfers were made during the first half of 2017:

- from level 1 to level 2:
  - financial assets held for trading for 54 million euro (book value as at 30 June 2017);
  - financial assets designated at fair value through profit and loss for 6 million euro (book value as at 30 June 2017);
  - financial assets available for sale for 82 million euro (book value as at 30 June 2017);
  - financial liabilities held for trading for 4 million euro (book value as at 30 June 2017).
- from level 2 to level 1:
  - financial assets held for trading for 243 million euro (book value as at 30 June 2017);
  - financial assets available for sale for 157 million euro (book value as at 30 June 2017);
  - financial liabilities held for trading for 114 million euro (book value as at 30 June 2017).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.

The transition from level 1 to level 2 is a consequence of the disappearance of the presence of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

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

	(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
<b>1. Initial amount</b>	<b>950</b>	<b>452</b>	<b>2,997</b>	<b>20</b>	-	-
<b>2. Increases</b>	<b>362</b>	<b>20</b>	<b>1,513</b>	-	-	-
2.1 Purchases	259	16	636	-	-	-
2.2 Gains recognised in:	35	-	354	-	-	-
2.2.1 <i>Income statement</i>	35	-	6	-	-	-
- of which capital gains	21	-	-	-	-	-
2.2.2 <i>Shareholders' equity</i>	X	X	348	-	-	-
2.3 Transfers from other levels	12	-	84	-	-	-
2.4 Other increases	56	4	439	-	-	-
<b>3. Decreases</b>	<b>-521</b>	<b>-1</b>	<b>-1,533</b>	<b>-3</b>	-	-
3.1 Sales	-226	-1	-135	-	-	-
3.2 Reimbursements	-153	-	-129	-	-	-
3.3 Losses recognised in:	-107	-	-721	-3	-	-
3.3.1 <i>Income statement</i>	-107	-	-519	-3	-	-
- of which capital losses	-47	-	-519	-3	-	-
3.3.2 <i>Shareholders' equity</i>	X	X	-202	-	-	-
3.4 Transfers to other levels	-25	-	-229	-	-	-
3.5 Other decreases	-10	-	-319	-	-	-
<b>4. Final amount</b>	<b>791</b>	<b>471</b>	<b>2,977</b>	<b>17</b>	-	-

The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a.

"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
<b>1. Initial amount</b>	<b>266</b>	-	<b>4</b>
<b>2. Increases</b>	<b>20</b>	-	-
2.1 Issues	-	-	-
2.2 Losses recognised in:	5	-	-
2.2.1 <i>Income statement</i>	5	-	-
- of which capital losses	5	-	-
2.2.2 <i>Shareholders' equity</i>	X	X	-
2.3 Transfers from other levels	5	-	-
2.4 Other increases	10	-	-
<b>3. Decreases</b>	<b>-34</b>	-	-
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-34	-	-
3.3.1 <i>Income statement</i>	-34	-	-
- of which capital gains	-21	-	-
3.3.2 <i>Shareholders' equity</i>	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
<b>4. Final amount</b>	<b>252</b>	-	<b>4</b>

The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a.

"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	30.06.2017		31.12.2016	
	Book value	Fair value	Book value	Fair value
1. Investments held to maturity	2,305	2,325	1,241	1,288
2. Due from banks	78,147	78,026	53,146	53,033
3. Loans to customers	393,517	402,921	364,713	375,241
4. Investment property	164	197	136	155
5. Non-current assets held for sale and discontinued operations	426	310	312	315
<b>Total</b>	<b>474,559</b>	<b>483,779</b>	<b>419,548</b>	<b>430,032</b>
1. Due to banks	101,450	102,153	72,641	72,209
2. Due to customers	304,518	304,873	291,876	292,408
3. Securities issued	101,499	103,679	94,783	95,745
4. Liabilities associated with non-current assets	267	277	272	272
<b>Total</b>	<b>507,734</b>	<b>510,982</b>	<b>459,572</b>	<b>460,634</b>

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a. The figures for comparison have not been restated.

**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	-185	1 bp
Held for trading and available for sale securities	Correlation	-4	1%
Held for trading and available for sale securities	CPR	-18	1%
Held for trading and available for sale securities	Recovery rate	-53	-1%
OTC Derivatives - Interest Rates	Correlation for spread options between swap rates	-370	0.10
OTC Derivatives - Equity	Correlation between underlying equity baskets	-114	0.10
OTC Derivatives - Equity	Historical volatility	-798	10%
OTC Derivatives - Interest Rate	Volatility for JPY swaption	-403	10%

The sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value, referring to complex credit derivatives, for an amount not material<sup>1</sup> 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 at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).

<sup>1</sup> 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 paragraph "Fair value measurement" above).

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)

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

## INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,229 million euro as at 30 June 2017, with respect to funded and unfunded ABSs/CDOs; excluding the positions coming from the acquisition of the segregated scope formerly held by Banca Popolare di Vicenza and Veneto Banca for 217 million euro, the exposure stands at 2,012 million euro compared to 2,471 million euro as at 31 December 2016. The exposure with respect to structured packages as at 30 June 2017 is equal to 2 million euro. It was 7 million euro on 31 December 2016.

The strategy regarding the portfolio in question in 2017 focused on investments 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 exposure to funded and unfunded ABSs/CDOs designated at fair value, excluding the positions coming from the Venetian banks for 20 million euro, dropped from 2,081 million euro in December 2016 to 1,782 million euro in June 2017. The decrease is attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs/CDOs by the Parent Company, only partially offset by investments in ABSs of Banca IMI (part of which were classified to the available-for-sale portfolio) and in European ABSs/CDOs acquired by the Parent Company and classified to the trading portfolio.

Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.

The exposure represented by securities classified under the loan portfolio, excluding the positions coming from the Venetian banks for 197 million euro, recorded a decrease (from 390 million euro in December 2016 to 230 million euro in June 2017) attributable in equal measure to the sales that concerned the portfolio of Banca IMI and of the Parent Company.

The decrease in the exposure of structured packages is attributable to sales during the period.

From the perspective of the income statement, a profit of +21 million euro was posted for the first half of 2017, against the +13 million euro for 2016.

As at 30 June 2017 the "Profits (losses) on trading – caption 80" of the exposure to funded and unfunded ABSs/CDOs came to +12 million euro (+12 million euro in 2016), generated by the positions in funded European and U.S. ABSs/CDOs, while positions in multi-sector CDOs and U.S. subprime had a nil result.

The exposure to funded and unfunded ABSs/CDOs in securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net decrease in fair value of 2 million euro in 2017, accounted for in the specific Shareholders' Equity Reserve (from a reserve at the end of December 2016 of +5 million euro to a reserve of +3 million euro in June 2017) and an impact on the income statement for sales made in the period of +1 million euro (+5 million euro in 2016). As at 30 June 2017, securities classified under the Loan portfolio recorded a net impact of +1 million euro (-6 million euro in 2016) referring to gains on disposals for +3 million euro and value adjustments due to impairment for -2 million euro.

For the "Monoline risk" and "Non-monoline packages" the contribution to "Profits (Losses) on trading – caption 80" of +7 million euro as at 30 June 2017 mostly refers to the sales taking place and is compared with the +2 million euro profit recorded as at 31 December 2016.

## INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio) are considered Special Purpose Entities.

The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.

For the SPE categories identified as not consolidated structured entities, no amendments are recorded to the criteria based on which the Intesa Sanpaolo Group decides on whether to include the companies in the scope of consolidation, compared to the information already provided in the 2016 financial statements.

During the first half of the 2017, within the framework of the multi-originator programme guaranteed by ISP OBG, the two series expiring in 2017 - the 9th and 10th series - were redeemed in advance in February, each for an amount of 1.375 billion euro.

Following these redemptions, the 23rd and 24th series of floating-rate securities were concurrently issued, for the same amounts, maturing in nine and ten years respectively.

All the securities, which are listed on the Luxembourg Stock Exchange and rated A High by DBRS, were subscribed by the Parent Company and are eligible on the Eurosystem.

With reference to the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was redeemed partially for an amount of 500 million euro, while in May the 13th series was issued for 1.650 billion euro, at a floating rate and maturing in 7 years.

The securities, which are listed on the Luxembourg Stock Exchange and rated A1 by Moody's, were subscribed by the Parent Company and are eligible on the Eurosystem.

As part of the covered bond issue programme guaranteed by ISP CB Ipotecario, in June a new issue of covered bonds was placed on the institutional market, the 22nd fixed-rate series, for 1 billion euro and a 10-year maturity. The securities are listed on the Luxembourg Stock Exchange and rated Aa2 by Moody's.

There were no significant changes to the other categories of SPEs subject to disclosure. Accordingly, reference should be made to the 2016 financial statements.

## INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

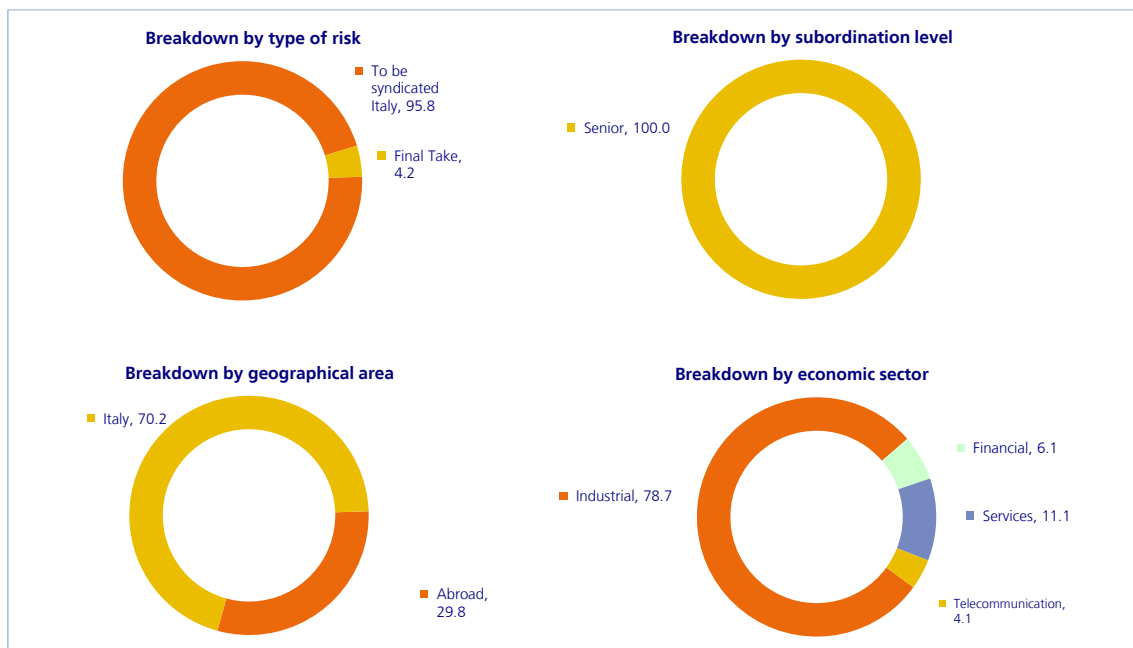
Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities in which the 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. 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 2017, 102 transactions for a total amount granted of 2,599 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 as at 30 June 2017 totalled 310 million euro, compared to 352 million euro recorded in December 2016, 80% of which were funds on the MAP platform, and 502 million euro in June 2016.

The reduction of the portfolio is attributable to the distributions and redemptions that took place starting from the second quarter of last year and continuing in the first half of this year, aimed at reducing the risk level of the exposure.

In particular, the most significant redemptions in the first half concerned the MAP 5A Fund for 13.5 million dollars, the Eurizon Penghua Fund for almost 12 million and, to a lesser extent, the Mount Kellett 14th MAF Fund and the Cyrus Opportunities Fund.

As at the same date, the economic result of the investments in this segment was positive, standing at 8 million euro, compared to the negative 44 million euro of "Profits (Losses) on trading – caption 80" in the first half of 2016, caused by severe turbulence on the markets. This profit of 8 million euro is mainly attributable to the improvement in the NAV of the MAP 19, 4A and 1A funds and to the CIMA Fund.

Overall, the portfolio's strategy remains oriented towards benefiting from the occurrence of specific corporate events, largely independent of the general trend, and the reduction of risk through a general downwards revision of allocations of individual funds in response to continued market uncertainty.

## INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 June 2017, 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 6,878 million euro (of which 101 million euro from the Venetian banks), compared to 7,532 million euro as at 31 December 2016. The notional value of these derivatives totalled 48,050 million euro (of which 2,261 million euro from the Venetian banks) and 47,698 million euro as at 31 December 2016. Of these, the notional value of plain vanilla contracts was 46,215 million euro (of which 2,212 million euro from the Venetian banks and 44,451 million euro as at 31 December 2016), while that of structured contracts was 3,382 million euro (of which 49 million euro from the Venetian banks) and 3,247 million euro as at 31 December 2016.

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,783 million euro (5,175 million euro as at 31 December 2016), of which 449 million euro (463 million euro as at 31 December 2016) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,397 million euro as at 30 June 2017 (of which 51 million euro from the Venetian banks) and 1,971 million euro as at 31 December 2016. The notional value of these derivatives totalled 26,225 million euro (of which 1,600 from the Venetian banks) and 22,030 million euro as at 31 December 2016. Of these, the notional value of plain vanilla contracts was 22,016 million euro (of which 1,599 million euro from the Venetian banks) and 18,745 million euro as at 31 December 2016 and that of structured contracts was 1,530 million euro (of which 1 million euro from the Venetian banks) and 3,285 million euro as at 31 December 2016.

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 2017, this led to a positive effect of 47 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the means of calculation, for the various methodologies used in the determination of 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; compliance risk, for the economic sanctions and losses part, 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 organisational 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 critical issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk;
- create significant synergies with the Information Security Governance and Business Continuity Sub-department, which supervises the planning of operational processes, IT security and business continuity issues, with the 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 on 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 the 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 1,658 million euro as at 30 June 2017, up from 1,563 million euro as at 31 December 2016; the increase was mostly due to the inclusion of the operational risks requirements for Veneto Banca and Banca Popolare di Vicenza.

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 disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

No new significant legal disputes were initiated during the half year.

The significant developments in the main legal disputes reported in the Notes to the 2016 Financial Statements are described below. Please refer to said Notes for a description of the disputes.

*Alis Holding lawsuit* - Following complex negotiations, in the month of July an out-of-court settlement was finalised between Intesa Sanpaolo and Alis Holding to close the action for damages lodged by the latter (with a claim of 127.6 million euro) for alleged liability of the Bank with respect to Cargotalia (a company held jointly by Alis Holding, with 66.67%, and Intesa Sanpaolo, with 33.33%).

The settlement was also made with the 'arrangement with creditors' procedure of Cargotalia, which in 2016 joined the proceedings claiming compensation from the Bank.

Thanks to the settlement, Intesa Sanpaolo paid a much smaller sum than the initial demand; the amount paid was completely covered by a provision.

*SEC and DOJ proceedings against IMI Securities Corp. of New York* – At the end of the half year, the discussions between SEC (Securities and Exchange Commission - (the U.S. financial market supervisory authority) and IMI SEC came to a close. After complex negotiations aimed at mitigating as much as possible the risk of sanctions due to breach of control obligations in the business area of pre-released ADRs (depository receipts of shares issued by non-US companies), pursuant to Section 15(b)(4)(E) of the Exchange Act and to Section 17(a)(3) of the Securities Act, a settlement agreement was reached, which the SEC investigation department has assessed favourably, involving the payment of the total sum of 35 million dollars, entirely covered by a provision. We expect SEC to approve the settlement. As to the investigation launched in October 2016 by the Antitrust Division of the Department of Justice (DoJ), concerning the same business area of pre-released ADRs, for alleged cartel among certain broker-dealers – including IMI SEC – there have been no developments.

### Tax litigation

With regard to tax disputes in the first half of 2017, Intesa Sanpaolo has incurred no new disputes for significant amounts. However, it should be noted that on 15 May 2017 a general tax audit was launched by the Piedmont Regional Office - Large Taxpayers Office, concerning tax period 2014.

The main developments in the tax disputes already under way at the end of 2016 concerning the Parent Company are reported hereunder.

With respect to the disputes concerning the recovery of registration tax on contributions of company assets and the subsequent sale of equity investments, reclassified by the tax authorities as transfer of business units, the Regional Tax Commission of Milan issued three rulings in our favour, filed on 20 February 2017, 25 May 2017 and 7 June 2017. The first tax dispute, having an approximate value of 2 million euro, concerns the reclassification of a transaction involving Cassa di Risparmio del Veneto, Cassa di Risparmio di Parma e Piacenza and Banca Popolare Friuladria; the second dispute (with a value of 1.7 million euro) concerns the reclassification of a transaction between Cassa di Risparmio di Firenze and Cassa di Risparmio di Parma e Piacenza; the third, with an approximate value of 28 million euro, concerns the assessment of the higher value of the company with regard to the securities services business line contributed to Intesa Sanpaolo Servizi Transazionali (which has since been sold to State Street Bank GMBH). Even though the rulings of the lower courts have all been in our favour except for one, in this type of cases Intesa Sanpaolo prudentially considers the often unfavourable rulings of the Court of Cassation, and has made provisions to cover potential charges, calculated taking into account joint liability (with the counterparties) and the clauses of the equity sale agreements, which generally make it possible to pass on to the buyer the taxes applying to the transaction.

On 20 April 2017, the Tax Authority lodged an appeal with the Court of Cassation in a tax dispute concerning IRES (corporate income tax) and IRAP (regional tax on production) for 2008, on which the first and second instance courts had ruled in Intesa Sanpaolo's favour. The Bank then filed its defence. Differently from the Bank, the Tax Authority considers as charges equivalent for tax purposes to interest payable - subject to a limited 97% deductibility - the negative components of the fair value hedging derivatives of liabilities consisting of bonds and deposits (recognised under caption 90 of the income statement "Fair value adjustments in hedge accounting"). The aggregate value of the two joined tax disputes is 1.2 million euro as to IRES tax and 0.27 million euro as to IRAP tax, plus interest.

As concerns the reimbursement of tax credits, total credits of 105 million euro have been confirmed and partly reimbursed; they consist mainly of positions of the former Cassa di Risparmio della Puglia for IRPEG (former corporation tax) and ILOR (former local tax on earnings) relating to 1985 and 1986, and from 1990 to 1994 (42 million euro in capital, plus interest).

Also for the Group companies, no significant events are reported in the first half of the year.

As to Mediocredito Italiano, the Regional Tax Commission rejected the main appeal lodged by the Revenue Agency and, granting the cross-appeal filed by Mediocredito Italiano, annulled completely the assessment notice issued by the Revenue Agency, Large Taxpayers Office of Lombardy, concerning VAT in 2007 on boat leasing contracts of the former Intesa Leasing (value of the dispute 6.6 million euro including tax and penalties, plus interest).

As regards Intesa Sanpaolo Group Services, on 26 May 2017 the tax assessment concerning IRES and IRAP for tax years from 2011 to 2014 was settled. The assessment concerned the consideration paid for the services of a Group company established in Romania supplying back office services to ISGS. The settlement led to payment of additional taxes of 1.04 million euro (plus interest of about 0.12 million euro), without penalties, and with a reduction of 0.46 million euro from the amount assessed (approximately 30%). Please note that in May 2017 the Revenue Agency office in Turin requested information via a questionnaire on the contribution of a business unit from Intesa Sanpaolo to Intesa Sanpaolo Group Services which took place in 2012; specifically, the information sought concerns the VAT treatment of the consideration for the services provided by Intesa Sanpaolo to some subsidiaries, through the transferred business unit, in the part of the year prior of the transfer, but which were then billed by the transferee company ISGS. To date, the company has received no tax assessment notice in this regard.

Also considering the absence of significant changes compared to 31 December 2016, the tax litigation risks are deemed to be covered by adequate provisions to allowances for risks and charges.

## 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 the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.

As at 30 June 2017, the investment portfolios of Group companies, recorded at book value, amounted to 151,639 million euro. Of these, a part amounting to 83,132 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 68,506 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, 86.5% of assets, i.e. approximately 71,937 million euro, were bonds, whereas assets subject to equity risk represented 2.1 % of the total and amounted to 1,745 million euro. The remainder (9,514 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (11.4%).

The carrying value of derivatives came to approximately -63 million euro, almost entirely relating to effective management derivatives.<sup>2</sup> The hedging derivatives amounted to a total of approximately 0.5 million euro.

At the end of the first six months of 2017, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,463 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 32 million euro.

The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 4,503 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 3.9% of total investments and A bonds approximately 5.5%. Low investment grade securities (BBB) were approximately 87.8% 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 75.3% of the total investments, while financial companies (mostly banks) contributed almost 13.4% of exposure and industrial securities made up approximately 11.3 %.

At the end of the first half of 2017, 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 4,125 million euro, with 3,210 million euro due to government issuers and 915 million euro to corporate issuers (financial institutions and industrial companies).

<sup>2</sup> ISVAP Regulation 36 of 31 January 2011 on investments defines as "effective management derivatives" all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

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# 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 2017 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") – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,458,804,043	9.198%
BlackRock Inc <sup>(1)</sup>	794,646,624	5.010%
Fondazione Cariplo	767,029,267	4.836%
Fondazione C.R. di Padova e Rovigo	514,111,188	3.242%

<sup>(1)</sup> Fund management. Shareholder owning aggregate investment equal to 5.106% as per form 120 B dated 4 July 2017.

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## Transactions with related parties

### 1. Procedural features

With resolution dated 2 August 2016 the Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, new Internal Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which replaces the previous version approved in 2012.

In line with the previous ones, these Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

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

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

Pursuant to the mentioned Regulations, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.

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

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital 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 (currently 3%), as well as the companies controlled by the latter; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with. This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as the transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.

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

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full 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;
- more significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for 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 of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.

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

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

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

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

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

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

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

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.

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, Article 53 of the Consolidated Law on Banking 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 2017 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.

	30.06.2017	
	Amount (millions of euro)	Impact (%)
Total financial assets	1,289	0.2
Total other assets	205	1.1
Total financial liabilities	1,339	0.3
Total other liabilities	534	0.2

Equity investments in companies subject to significant influence or joint control (carried at equity), amounting to 818 million euro, are to be added to the foregoing balance sheet aggregates (of which 120 million euro reclassified to discontinued operations).

	30.06.2017	
	Amount (millions of euro)	Impact (%)
Total interest income	20	0.3
Total interest expense	3	0.2
Total fee and commission income	18	0.4
Total fee and commission expense	7	0.7
Total operating costs	32	0.7

During the half there were net provisions for non-performing loans for 46 million euro on loans and 20 million euro on existing guarantees towards associates and companies subject to joint control.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope 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 129 million euro.

The table includes the balances relating to the former assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, even though their amount is not significant.

	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 commitments given	Guarantees and commitments received
Subsidiaries not consolidated on a line-by-line basis	-	-	-	-	1	3	2	107	-	2	7	2
Companies subject to joint control and their subsidiaries	14	-	10	17	205	196	1	121	-	61	71	255
Associates and their subsidiaries	136	-	148	-	579	3	2	386	54	40	216	144
Board Members and General Managers, Key Managers and their related parties	-	-	-	-	9	-	-	12	-	7	1	24
Pension funds	-	-	-	-	-	3	-	383	-	423	1	-
<b>Total</b>	<b>150</b>	<b>-</b>	<b>158</b>	<b>17</b>	<b>794</b>	<b>205</b>	<b>5</b>	<b>1,009</b>	<b>54</b>	<b>533</b>	<b>296</b>	<b>425</b>
Shareholders (*)	-	-	-	-	2	-	-	253	-	-	48	3
Companies which the Group has notable investments in and financial links with (**)	-	-	130	-	38	-	-	18	-	1	59	-

(\*) Shareholders and their groups that hold a stake in the Bank's voting share capital exceeding the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies (calculated considering only shares owned or under management), as well as the companies under joint control by these shareholders.

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

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: Penghua Fund Management Co. Ltd, Autostrade Lombarde S.p.A., Equiter S.p.A., Cassa di Risparmio di Fermo S.p.A., Manzoni S.r.l., Autostrada Pedemontana Lombarda S.p.A., Consorzio Bancario Sir S.p.A. in liquidation, Rainbow. The main companies subject to joint control (joint venture) include: Tangenziali Esterne di Milano S.p.A., Mir Capital Sca Sicar and Tangenziale Esterna S.p.A. In addition, worth noting is that the investment in AllFunds Bank S.A. was reclassified under discontinued operations and that the investments in Bank of Qingdao Co. Ltd. and Nuovo Trasporto Viaggiatori S.p.A. (for the remaining post-sale portion) were reclassified as Available for sale.

### 3. Information on transactions with related parties

#### Most significant transactions

During the first half of 2017 the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.

Please note that the most significant transactions in the period are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.6 billion euro) or of the other indicators defined by the Consob regulation.

#### Most significant intragroup transactions

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – the sale of a mortgage portfolio to the vehicle company ISP CB Ipotecario S.r.l took place during the period, for an amount of about 5 billion euro, as part of the Covered Bond issue programme, and will be partially settled by the disbursement of a subordinated loan.

#### Other significant transactions

The transactions entered into with related parties in the first half of 2017 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.

The main less significant transactions concluded during the first half of 2017 by the Parent Company or subsidiaries with related parties are reported below.

Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level.

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

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

Also worth mentioning is the sale of stakes in the capital of the Bank of Italy to Fondazione Cariplo (6000 stakes) and to Compagnia di San Paolo (3000 stakes) at a price equalling the related nominal value, in line with the conditions applied for the sales to unrelated parties.



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: Tangenziale Esterna S.p.A., Euromilano S.p.A., Alitalia-Società Aerea Italiana S.p.A., Italconsult S.p.A., IP Cleaning S.p.A. and other minor companies. These transactions were carried out at rates aligned to market rates or in any case suitable for the Group.

Again referring to the transactions with entities under joint control and associates and their subsidiaries, the early settlement of two securitisation transactions no longer functional should be noted. The first was launched in December 2011 by the then Leasint S.p.A. (now Mediocredito Italiano) via the vehicle company Adriano Lease Sec. S.r.l. and concerned a performing loan portfolio arising from car, equipment and property lease contracts. The structure of the transaction, for a value of 2.3 billion euro, included the issue of two series of notes:

- a Senior series, used as collateral for refinancing operations with the ECB and fully repaid;
- a Junior series not eligible at the Eurosystem, which, although the originator essentially maintained the risk and benefits of the portfolio, had not allowed the derecognition of the loans from its financial statements.

The second, realised between Banca CR Firenze S.p.A. and CR Firenze Mutui S.r.l., concerned a securitisation transaction and the exercise of the option to repurchase the portfolio of securitised mortgages, for an amount equal to about 22 million euro.

Finally, worth noting is the placement, without guarantee assumption, by Banca IMI, in its capacity as Joint Global Coordinator together with Credit Suisse, of a bond issued by Nuovo Trasporto Viaggiatori S.p.A. for a value equal to 550 million euro and targeted at institutional investors.

Lastly, the transactions carried out with the Funds established in favour of employees of Intesa Sanpaolo and other Group Companies are reported. In particular the following transactions are shown relating to the process of selling the excess stakes held in the Bank of Italy compared to the regulatory threshold of 3% introduced by Legislative Decree 133 of 30 November 2013, converted into Law no. 5 of 29 January 2014:

- to the Cariplo pension fund: 1,200 stakes for a total of 30 million euro;
- to the Supplementary Pension Fund for the employees of Istituto San Paolo di Torino: 800 stakes for a total of 20 million euro;
- to the Complementary Pension Fund for the employees of Banco di Napoli: 600 stakes for a total of 15 million euro;
- to the Pension Fund for the employees of Cassa di Risparmio di Firenze: 200 stakes, for a total of 5 million euro;
- to the Single Group Pension Fund of Intesa Sanpaolo: 2,840 stakes for a total of 71 million euro;
- to Fondazione Cariplo: 6,000 stakes for a total of 150 million euro;
- to Compagnia di San Paolo: 3,000 stakes for a total of 75 million euro.

All the sales took place, in line with those finalised with the significant shareholders, at a price equal to the nominal value of the stakes.

#### **Other significant information**

With reference to the investments carried at equity, negative impacts were recorded on the income statement deriving from Solar Express and Autostrada Pedemontana Lombarda. Instead, concerning Compagnia Aerea Italiana, the impact on the income statement was nil, since the special allowance for risks and charges set aside in 2015 was used to offset the value adjustments recorded in the half-year.

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 the employees of Banco di Napoli - Section A, already recognised in the 2016 financial statements. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

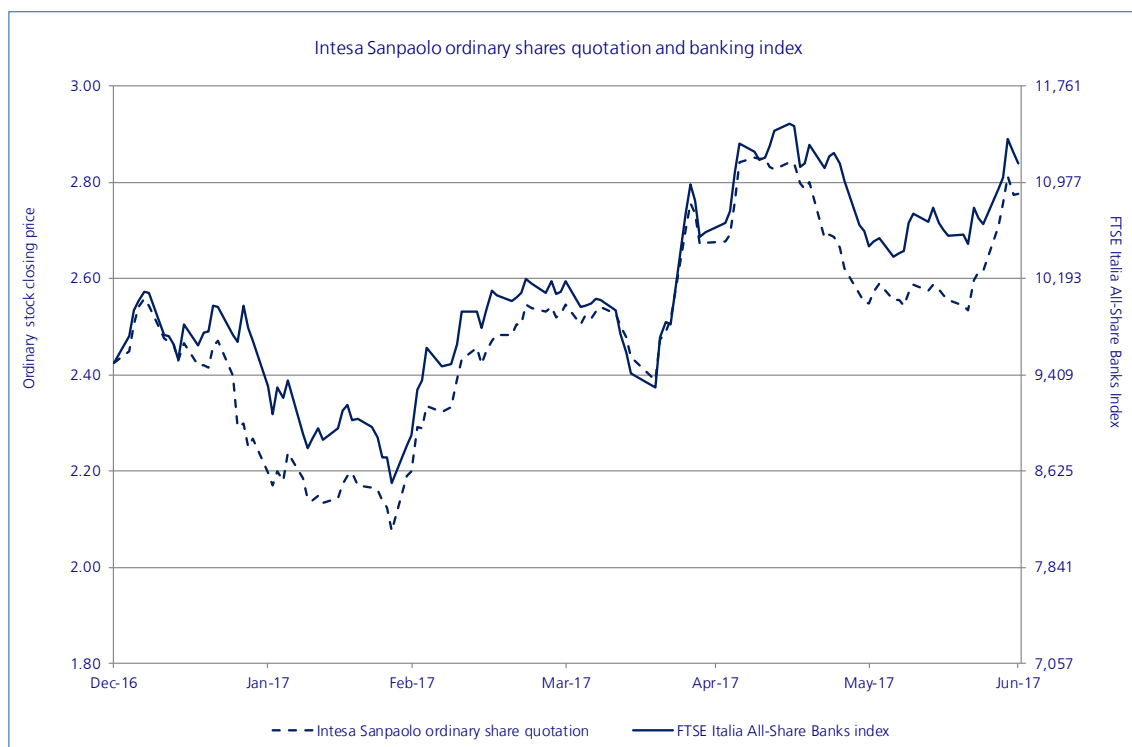
### **Stock price performance**

In the first half of 2017, in a gradual context of reduction of risk aversion by the investors, driven by the consolidation of world economic growth, the upward revisions of the growth forecasts for the Eurozone and an easing of the political risk following the elections in France and the Netherlands, the European banking index recorded progress of 11.5%, reporting an over-performance of 6.9% compared to the Eurostoxx 50 index.

In this context, the Italian banking industry benefited from a significant re-rating of the multiples, which caused the Italian banking index to close the first half of 2017 with progress of 17%, outperforming the FTSE MIB index by 10% and the European banking index by 5.6%.

In the first half of 2017, the performance of Intesa Sanpaolo ordinary shares mirrored that of banking sector indices, with a drop at the start of the year, until the end of February, followed by an upward trend until the first ten days of May, when the peak was reached, to which the stock came close once again, after a downturn, at the end of the half, recording growth of 14.4% at the end of June compared to the end of 2016. The price of Intesa Sanpaolo savings shares increased by 16.2% at the end of June 2017 compared to the end of 2016. The discount with respect to ordinary shares decreased to approximately 6.5% at the end of June 2017 from 8% at the end of 2016.

Intesa Sanpaolo's capitalisation rose to 46.4 billion euro at the end of June 2017, from 40.6 billion euro at the end of 2016.



### 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.

	30.06.2017		30.06.2016	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Weighted average number of shares	15,837,925,542	932,490,561	15,840,596,912	932,490,561
Income attributable to the various categories of shares (millions of euro)	4,937	301	1,602	104
Basic EPS (euro)	0.31	0.32	0.10	0.11
Diluted EPS (euro)	0.31	0.32	0.10	0.11
Basic EPS annualised <sup>(*)</sup> (euro)	0.62	0.64	0.20	0.22
Diluted EPS annualised <sup>(*)</sup> (euro)	0.62	0.64	0.20	0.22

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

Excluding the public contribution of 3.5 billion euro assigned by the Italian government within the context of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the basic earnings per share and diluted earnings per share as at 30 June 2017 would be equal to 0.10 euro (0.21 euro the annualised figure)

### 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 2017 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

	30.06.2017	1st half 2017	2016	2015	2014	2013
Market capitalisation	46,448	41,676	37,152	51,903	38,096	24,026
Shareholders' equity	53,164	51,042	48,344	46,230	44,599	46,918
<b>Price / book value</b>	<b>0.87</b>	<b>0.82</b>	<b>0.77</b>	<b>1.12</b>	<b>0.85</b>	<b>0.51</b>

(millions of euro)

### Rating

On 27 April 2017, Fitch downgraded ISP's rating to "BBB" with stable outlook following the same action on Italy's rating on 21 April. The short-term rating was confirmed at "F-2".

Following the transaction concerning the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, the rating agencies Fitch, S&P and DBRS confirmed ISP's ratings and outlook: on 27 June Fitch and S&P confirmed the ratings at "BBB/stable/F2" and "BBB-/stable/A3" respectively; on 29 June 2017 DBRS confirmed the ratings "BBB(high)/R-1(low)" with stable trend.

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

<sup>(1)</sup> Stable trend

<sup>(2)</sup> Senior debt rating. The rating on deposits is A3 with negative outlook

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## Forecast for the year

The growth phase of the global economy will extend to the rest of the year, encouraging the central banks to further reduce their monetary stimulus measures and pushing the rate curves to rise. Some economic uncertainties, such as those related to the financial excesses in China, in addition to the political uncertainties related also to the unpredictability of the Trump administration, are still present. In Europe, the political risks are connected to the elections that will take place by next spring in various European countries, including Italy. The adaptation of the markets to the shift in monetary policy may lead to greater volatility in exchange and interest rates.

In 2017 the GDP performance in the emerging countries is expected to accelerate slightly, mainly due to the return to growth in Latin America (with Brazil coming out of the recession) and a strengthening of growth in the CIS countries and Sub-Saharan Africa. Asia is expected to maintain a pace in line with the one of 2016. The expected slowdown in China should be offset by more sustained growth in India. The additional slowdown of oil-producing countries, especially those of the GCC group, is expected to give rise to an overall slowdown of the MENA area.

With reference to the countries where Intesa Sanpaolo subsidiaries are located, in 2017 the growth in GDP is expected to pick up also overall in the CEE/SEE countries, driven by domestic demand, the new cycle of investments linked to European structural funds and the recovery of the Euro Area. Russia's real economy is recovering, though modestly, due to the presence of structural factors which limit the expansion of the economic potential. Egypt's GDP is expected to accelerate as well, supported by the recovering tourist flows, the investments in public works and capital inflows. Ukraine's prospects are less certain due to the trade blockade in the Donbass area.

Within the Italian banking system, there continue to be favourable conditions for access to credit, thanks to the still very expansionary monetary policy stance, the selective availability of supply and the increase in demand in some business segments, in a scenario characterised by the strengthening of economic growth. For households, which confirmed their financial soundness, the lending scenario remains positive: growth in stocks will continue at a moderate pace in the rest of 2017, favoured by interest rates remaining at historical lows, the continued recovery of the real estate market and the improved conditions on the labour market. As regards the loans to businesses, a more robust recovery is expected in the second part of the year, though at still very modest rates, slowed down by a liquidity situation that will remain more than sufficient.

With regard to funding, the growth of deposits will continue, while the overall trend will continue to be affected by the limited requirements for customer deposits by banks, considering the evolution of loans and the significant liquidity available. The net redemption of bonds on the retail segment will continue, while unattractive market yields and the significant liquidity available will continue to fuel the balances on current accounts. These factors will continue to favour the reduction of customer deposit costs. In a context of very low market rates and favourable credit access conditions, borrowing rates are expected to remain very low for the rest of 2017.

In 2017, the Intesa Sanpaolo Group is expected to register an increase in operating margin, driven by revenue growth and continuous cost management, and in gross income (even excluding the public cash contribution of 3.5 billion euro offsetting the impact on the capital ratios deriving from the acquisition of assets and liabilities of Banca Popolare di Vicenza and Veneto Banca) with a reduction in the cost of risk. The commitment to distribute 10 billion euro of cumulative cash dividends in four years (2014-2017), as indicated in the Business Plan, is confirmed.

The Board of Directors

Milan, 1 August 2017

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# 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 2017.
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 2017 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<sup>3</sup>.
3. The undersigned also certify that:
  - 3.1. the Half-yearly condensed consolidated financial statements as at 30 June 2017:
    - 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.

1 August 2017

Carlo Messina  
Managing Director and CEO

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

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<sup>3</sup> 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.



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# 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 statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2017. 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.





**Intesa Sanpaolo Group**

*Report on review of condensed interim consolidated financial statements  
30 June 2017*

## **Conclusions**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Intesa Sanpaolo Group as at and for the six months ended 30 June 2017 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, 3 August 2017

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli  
Director of Audit



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# Attachments

## **Reconciliation between consolidated financial statements and consolidated financial statements net of the acquired operations**

Consolidated balance sheet as at 30 June 2017

## **Reconciliation between published consolidated financial statements and adjusted consolidated financial statements**

Reconciliation between published consolidated balance sheet as at 31 December 2016 and adjusted consolidated balance sheet as at 31 December 2016

Reconciliation between published income statement for the first half of 2016 and adjusted consolidated income statement for the first half of 2016

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

Reconciliation between published consolidated balance sheet as at 31 December 2016 and restated consolidated balance sheet as at 31 December 2016

Reconciliation between the published consolidated income statement for the first half of 2016 and restated consolidated income statement for the first half of 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 consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement



Reconciliation between consolidated financial statements  
and consolidated financial statements net of the acquired  
operations

## Consolidated balance sheet as at 30 June 2017

Assets	30.6.2017		
	Consolidated figure	Of which: figure of the assets acquired	Consolidated figure net of the assets acquired
10. Cash and cash equivalents	6,446	278	6,168
20. Financial assets held for trading	44,415	2,065	42,350
30. Financial assets designated at fair value through profit and loss	70,018	6	70,012
40. Financial assets available for sale	144,562	4,464	140,098
50. Investments held to maturity	2,305	1,103	1,202
60. Due from banks	78,147	6,065	72,082
70. Loans to customers	393,517	24,428	369,089
80. Hedging derivatives	5,209	50	5,159
90. Fair value change of financial assets in hedged portfolios (+/-)	-213	-21	-192
100. Investments in associates and companies subject to joint control	1,282	583	699
110. Technical insurance reserves reassured with third parties	16	-	16
120. Property and equipment	5,012	222	4,790
130. Intangible assets	7,413	18	7,395
<i>of which</i>			
- goodwill	4,059	-	4,059
140. Tax assets	15,951	1,469	14,482
<i>a) current</i>	3,656	516	3,140
<i>b) deferred</i>	12,295	953	11,342
- of which convertible into tax credit (Law no. 214/2011)	8,608	394	8,214
150. Non-current assets held for sale and discontinued operations	427	-	427
160. Other assets	13,511	5,334	8,177
<b>Total Assets</b>	<b>788,018</b>	<b>46,064</b>	<b>741,954</b>

Liabilities and Shareholders' Equity	30.6.2017		
	Consolidated figure	Of which: figure of the liabilities acquired	Consolidated figure net of the liabilities acquired
10. Due to banks	101,450	12,040	89,410
20. Due to customers	304,518	17,862	286,656
30. Securities issued	101,499	11,864	89,635
40. Financial liabilities held for trading	42,517	1,437	41,080
50. Financial liabilities designated at fair value through profit and loss	63,017	190	62,827
60. Hedging derivatives	8,254	675	7,579
70. Fair value change of financial liabilities in hedged portfolios (+/-)	596	-13	609
80. Tax liabilities	1,972	100	1,872
<i>a) current</i>	348	1	347
<i>b) deferred</i>	1,624	99	1,525
90. Liabilities associated with non-current assets held for sale and discontinued operations	268	-	268
100. Other liabilities	20,236	1,751	18,485
110. Employee termination indemnities	1,445	82	1,363
120. Allowances for risks and charges	5,132	76	5,056
<i>a) post employment benefits</i>	961	5	956
<i>b) other allowances</i>	4,171	71	4,100
130. Technical reserves	83,593	-	83,593
140. Valuation reserves	-1,838	-	-1,838
150. Redeemable shares	-	-	-
160. Equity instruments	4,102	-	4,102
170. Reserves	10,986	-	10,986
180. Share premium reserve	26,006	-	26,006
190. Share capital	8,732	-	8,732
200. Treasury shares (-)	-62	-	-62
210. Minority interests (+/-)	357	-	357
220. Net income (loss)	5,238	-	5,238
<b>Total Liabilities and Shareholders' Equity</b>	<b>788,018</b>	<b>46,064</b>	<b>741,954</b>





## Reconciliation between published consolidated financial statements and adjusted consolidated financial statements



**Reconciliation between published consolidated balance sheet as at 31 December 2016 and adjusted consolidated balance sheet as at 31 December 2016**

The published consolidated balance sheet as at 31 December 2016 did not require any adjustments.

## **Reconciliation between published consolidated income statement for the first half of 2016 and adjusted consolidated income statement for the first half of 2016**

The published consolidated income statement for the first half of 2016 did not require any adjustments.

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

## Reconciliation between published consolidated balance sheet as at 31 December 2016 and restated consolidated balance sheet as at 31 December 2016

(millions of euro)

Assets	31.12.2016 Published (*)	Discontinued operations (a)	31.12.2016 Restated
10. Cash and cash equivalents	8,686	-	8,686
20. Financial assets held for trading	43,613	-	43,613
30. Financial assets designated at fair value through profit and loss	63,865	-	63,865
40. Financial assets available for sale	146,692	-	146,692
50. Investments held to maturity	1,241	-	1,241
60. Due from banks	53,146	-	53,146
70. Loans to customers	364,713	-	364,713
80. Hedging derivatives	6,234	-	6,234
90. Fair value change of financial assets in hedged portfolios (+/-)	321	-	321
100. Investments in associates and companies subject to joint control	1,278	-111	1,167
110. Technical insurance reserves reassured with third parties	17	-	17
120. Property and equipment	4,908	-	4,908
130. Intangible assets	7,393	-	7,393
<i>of which</i>			
- <i>goodwill</i>	4,059	-	4,059
140. Tax assets	14,444	-	14,444
<i>a) current</i>	3,313	-	3,313
<i>b) deferred</i>	11,131	-	11,131
- <i>of which convertible into tax credit (Law no. 214/2011)</i>	8,491	-	8,491
150. Non-current assets held for sale and discontinued operations	312	111	423
160. Other assets	8,237	-	8,237
<b>Total Assets</b>	<b>725,100</b>	<b>-</b>	<b>725,100</b>

(\*) Figures originally published in the Annual Report 2016.

(a) The restatement of discontinued operations refers to the sale of Allfunds Bank, which will be finalised in 2017.

(millions of euro)

Liabilities and Shareholders' Equity	31.12.2016 Published (*)	Discontinued operations (a)	31.12.2016 Restated
10. Due to banks	72,641	-	72,641
20. Due to customers	291,876	-	291,876
30. Securities issued	94,783	-	94,783
40. Financial liabilities held for trading	44,790	-	44,790
50. Financial liabilities designated at fair value through profit and loss	57,187	-	57,187
60. Hedging derivatives	9,028	-	9,028
70. Fair value change of financial liabilities in hedged portfolios (+/-)	773	-	773
80. Tax liabilities	2,038	-	2,038
a) current	497	-	497
b) deferred	1,541	-	1,541
90. Liabilities associated with non-current assets held for sale and discontinued operations	272	-	272
100. Other liabilities	11,944	-	11,944
110. Employee termination indemnities	1,403	-	1,403
120. Allowances for risks and charges	3,427	-	3,427
a) post employment benefits	1,025	-	1,025
b) other allowances	2,402	-	2,402
130. Technical reserves	85,619	-	85,619
140. Valuation reserves	-1,854	-	-1,854
150. Redeemable shares	-	-	-
160. Equity instruments	2,117	-	2,117
170. Reserves	9,528	-	9,528
180. Share premium reserve	27,349	-	27,349
190. Share capital	8,732	-	8,732
200. Treasury shares (-)	-72	-	-72
210. Minority interests (+/-)	408	-	408
220. Net income (loss)	3,111	-	3,111
<b>Total Liabilities and Shareholders' Equity</b>	<b>725,100</b>	<b>-</b>	<b>725,100</b>

(\*) Figures originally published in the Annual Report 2016.

(a) The restatement of discontinued operations refers to the sale of Allfunds Bank, which will be finalised in 2017.

## Reconciliation between the published consolidated income statement for the first half of 2016 and restated consolidated income statement for the first half of 2016

(millions of euro)

	1st Half of 2016 Published (* )	Non-current assets held for sale (a)	Changes in the scope of consolidation (b)	1st Half of 2016 Restated
10. Interest and similar income	6,542	-18	1	6,525
20. Interest and similar expense	-2,187	-	-	-2,187
<b>30. Interest margin</b>	<b>4,355</b>	<b>-18</b>	<b>1</b>	<b>4,338</b>
40. Fee and commission income	4,059	-	91	4,150
50. Fee and commission expense	-817	-	-70	-887
<b>60. Net fee and commission income</b>	<b>3,242</b>	<b>-</b>	<b>21</b>	<b>3,263</b>
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
<b>120. Net interest and other banking income</b>	<b>9,256</b>	<b>-18</b>	<b>22</b>	<b>9,260</b>
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
<b>140. Net income from banking activities</b>	<b>7,897</b>	<b>-18</b>	<b>22</b>	<b>7,901</b>
150. Net insurance premiums	5,142	-	-	5,142
160. Other net insurance income (expense)	-6,088	-	-	-6,088
<b>170. Net income from banking and insurance activities</b>	<b>6,951</b>	<b>-18</b>	<b>22</b>	<b>6,955</b>
180. Administrative expenses	-4,470	-	-12	-4,482
a) personnel expenses	-2,682	-	-7	-2,689
b) other administrative expenses	-1,788	-	-5	-1,793
190. Net provisions for risks and charges	-113	-	-	-113
200. Net adjustments to / recoveries on property and equipment	-169	-	-2	-171
210. Net adjustments to / recoveries on intangible assets	-272	-	-	-272
220. Other operating expenses (income)	340	-	1	341
<b>230. Operating expenses</b>	<b>-4,684</b>	<b>-</b>	<b>-13</b>	<b>-4,697</b>
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
<b>280. Income (Loss) before tax from continuing operations</b>	<b>2,383</b>	<b>-18</b>	<b>9</b>	<b>2,374</b>
290. Taxes on income from continuing operations	-678	7	-3	-674
<b>300. Income (Loss) after tax from continuing operations</b>	<b>1,705</b>	<b>-11</b>	<b>6</b>	<b>1,700</b>
310. Income (Loss) after tax from discontinued operations	105	-	-	105
<b>320. Net income (loss)</b>	<b>1,810</b>	<b>-11</b>	<b>6</b>	<b>1,805</b>
330. Minority interests	-103	11	-6	-98
<b>340. Parent Company's net income (loss)</b>	<b>1,707</b>	<b>-</b>	<b>-</b>	<b>1,707</b>

(\*) Figures originally published in the Half-yearly report as at 30 June 2016.

(a) Profit and loss results for the period ended 30 June 2016 of the portfolio of performing loans subject to the sale finalised at the end of May 2016 by the subsidiary ACCEDO.

(b) Profit and loss results for the period ended 30 June 2016 of Banca 5 (formerly Banca ITB), included in the scope of consolidation at the end of December 2016.



## Restated consolidated financial statements

## Restated consolidated balance sheet

(millions of euro)

Assets	30.06.2017 Consolidated figure net of the assets acquired	31.12.2016 Restated	Changes	
			amount	%
10. Cash and cash equivalents	6,168	8,686	-2,518	-29.0
20. Financial assets held for trading	42,350	43,613	-1,263	-2.9
30. Financial assets designated at fair value through profit and loss	70,012	63,865	6,147	9.6
40. Financial assets available for sale	140,098	146,692	-6,594	-4.5
50. Investments held to maturity	1,202	1,241	-39	-3.1
60. Due from banks	72,082	53,146	18,936	35.6
70. Loans to customers	369,089	364,713	4,376	1.2
80. Hedging derivatives	5,159	6,234	-1,075	-17.2
90. Fair value change of financial assets in hedged portfolios (+/-)	-192	321	-513	
100. Investments in associates and companies subject to joint control	699	1,167	-468	-40.1
110. Technical insurance reserves reassured with third parties	16	17	-1	-5.9
120. Property and equipment	4,790	4,908	-118	-2.4
130. Intangible assets	7,395	7,393	2	0.0
<i>of which</i>				
- <i>goodwill</i>	4,059	4,059	-	-
140. Tax assets	14,482	14,444	38	0.3
<i>a) current</i>	3,140	3,313	-173	-5.2
<i>b) deferred</i>	11,342	11,131	211	1.9
- <i>of which convertible into tax credit (Law no. 214/2011)</i>	8,214	8,491	-277	-3.3
150. Non-current assets held for sale and discontinued operations	427	423	4	0.9
160. Other assets	8,177	8,237	-60	-0.7
<b>Total Assets</b>	<b>741,954</b>	<b>725,100</b>	<b>16,854</b>	<b>2.3</b>

(millions of euro)

Liabilities and Shareholders' Equity	30.06.2017	31.12.2016	Changes	
	Consolidated figure net of the liabilities acquired	Restated	amount	%
10. Due to banks	89,410	72,641	16,769	23.1
20. Due to customers	286,656	291,876	-5,220	-1.8
30. Securities issued	89,635	94,783	-5,148	-5.4
40. Financial liabilities held for trading	41,080	44,790	-3,710	-8.3
50. Financial liabilities designated at fair value through profit and loss	62,827	57,187	5,640	9.9
60. Hedging derivatives	7,579	9,028	-1,449	-16.1
70. Fair value change of financial liabilities in hedged portfolios (+/-)	609	773	-164	-21.2
80. Tax liabilities	1,872	2,038	-166	-8.1
<i>a) current</i>	347	497	-150	-30.2
<i>b) deferred</i>	1,525	1,541	-16	-1.0
90. Liabilities associated with non-current assets held for sale and discontinued operations	268	272	-4	-1.5
100. Other liabilities	18,485	11,944	6,541	54.8
110. Employee termination indemnities	1,363	1,403	-40	-2.9
120. Allowances for risks and charges	5,056	3,427	1,629	47.5
<i>a) post employment benefits</i>	956	1,025	-69	-6.7
<i>b) other allowances</i>	4,100	2,402	1,698	70.7
130. Technical reserves	83,593	85,619	-2,026	-2.4
140. Valuation reserves	-1,838	-1,854	-16	-0.9
150. Redeemable shares	-	-	-	-
160. Equity instruments	4,102	2,117	1,985	93.8
170. Reserves	10,986	9,528	1,458	15.3
180. Share premium reserve	26,006	27,349	-1,343	-4.9
190. Share capital	8,732	8,732	-	-
200. Treasury shares (-)	-62	-72	-10	-13.9
210. Minority interests (+/-)	357	408	-51	-12.5
220. Net income (loss)	5,238	3,111	2,127	68.4
<b>Total Liabilities and Shareholders' Equity</b>	<b>741,954</b>	<b>725,100</b>	<b>16,854</b>	<b>2.3</b>

## Restated consolidated income statement

(millions of euro)

	1st Half of 2017	1st Half of 2016 Restated	Changes	
			amount	%
10. Interest and similar income	6,165	6,525	-360	-5.5
20. Interest and similar expense	-1,886	-2,187	-301	-13.8
<b>30. Interest margin</b>	<b>4,279</b>	<b>4,338</b>	<b>-59</b>	<b>-1.4</b>
40. Fee and commission income	4,496	4,150	346	8.3
50. Fee and commission expense	-976	-887	89	10.0
<b>60. Net fee and commission income</b>	<b>3,520</b>	<b>3,263</b>	<b>257</b>	<b>7.9</b>
70. Dividend and similar income	183	326	-143	-43.9
80. Profits (Losses) on trading	231	251	-20	-8.0
90. Fair value adjustments in hedge accounting	-3	-64	-61	-95.3
100. Profits (Losses) on disposal or repurchase of	435	711	-276	-38.8
<i>a) loans</i>	-19	-1	18	
<i>b) financial assets available for sale</i>	479	701	-222	-31.7
<i>c) investments held to maturity</i>	1	-	1	
<i>d) financial liabilities</i>	-26	11	-37	
110. Profits (Losses) on financial assets and liabilities designated at fair value	556	435	121	27.8
<b>120. Net interest and other banking income</b>	<b>9,201</b>	<b>9,260</b>	<b>-59</b>	<b>-0.6</b>
130. Net losses / recoveries on impairment	-1,583	-1,359	224	16.5
<i>a) loans</i>	-1,091	-1,317	-226	-17.2
<i>b) financial assets available for sale</i>	-462	-90	372	
<i>c) investments held to maturity</i>	-	-	-	
<i>d) other financial activities</i>	-30	48	-78	
<b>140. Net income from banking activities</b>	<b>7,618</b>	<b>7,901</b>	<b>-283</b>	<b>-3.6</b>
150. Net insurance premiums	3,254	5,142	-1,888	-36.7
160. Other net insurance income (expense)	-4,267	-6,088	-1,821	-29.9
<b>170. Net income from banking and insurance activities</b>	<b>6,605</b>	<b>6,955</b>	<b>-350</b>	<b>-5.0</b>
180. Administrative expenses	-4,477	-4,482	-5	-0.1
<i>a) personnel expenses</i>	-2,686	-2,689	-3	-0.1
<i>b) other administrative expenses</i>	-1,791	-1,793	-2	-0.1
190. Net provisions for risks and charges	-1,951	-113	1,838	
200. Net adjustments to / recoveries on property and equipment	-166	-171	-5	-2.9
210. Net adjustments to / recoveries on intangible assets	-236	-272	-36	-13.2
220. Other operating expenses (income)	5,162	341	4,821	
<b>230. Operating expenses</b>	<b>-1,668</b>	<b>-4,697</b>	<b>-3,029</b>	<b>-64.5</b>
240. Profits (Losses) on investments in associates and companies subject to joint control	329	107	222	
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	6	9	-3	-33.3
<b>280. Income (Loss) before tax from continuing operations</b>	<b>5,272</b>	<b>2,374</b>	<b>2,898</b>	
290. Taxes on income from continuing operations	-21	-674	-653	-96.9
<b>300. Income (Loss) after tax from continuing operations</b>	<b>5,251</b>	<b>1,700</b>	<b>3,551</b>	
310. Income (Loss) after tax from discontinued operations	-	105	-105	
<b>320. Net income (loss)</b>	<b>5,251</b>	<b>1,805</b>	<b>3,446</b>	
330. Minority interests	-13	-98	-85	-86.7
<b>340. Parent Company's net income (loss)</b>	<b>5,238</b>	<b>1,707</b>	<b>3,531</b>	

## Reconciliation between consolidated financial statements and reclassified consolidated financial statements

## Reconciliation between 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	30.06.2017 Consolidated figure
Financial assets held for trading		44,415
	<i>Caption 20 - Financial assets held for trading</i>	44,415
Financial assets designated at fair value through profit and loss		70,018
	<i>Caption 30 - Financial assets designated at fair value through profit and loss</i>	70,018
Financial assets available for sale		144,562
	<i>Caption 40 - Financial assets available for sale</i>	144,562
Investments held to maturity		2,305
	<i>Caption 50 - Investments held to maturity</i>	2,305
Due from banks		78,147
	<i>Caption 60 - Due from banks</i>	78,147
Loans to customers		393,517
	<i>Caption 70 - Loans to customers</i>	393,517
Investments in associates and companies subject to joint control		1,282
	<i>Caption 100 - Investments in associates and companies subject to joint control</i>	1,282
Property, equipment and intangible assets		12,425
	<i>Caption 120 - Property and equipment</i>	5,012
	<i>+ Caption 130 - Intangible assets</i>	7,413
Tax assets		15,951
	<i>Caption 140 - Tax assets</i>	15,951
Non-current assets held for sale and discontinued operations		427
	<i>Caption 150 - Non-current assets held for sale and discontinued operations</i>	427
Other assets		24,969
	<i>Caption 10 - Cash and cash equivalents</i>	6,446
	<i>+ Caption 160 - Other assets</i>	13,511
	<i>+ Caption 110 - Technical insurance reserves reassured with third parties</i>	16
	<i>+ Caption 80 - Hedging derivatives</i>	5,209
	<i>+ Caption 90 - Fair value change of financial assets in hedged portfolios</i>	-213
<b>Total Assets</b>	<b>Total Assets</b>	<b>788,018</b>

		(millions of euro)
Captions of the reclassified consolidated balance sheet Liabilities and Shareholders' Equity	Captions of the consolidated balance sheet - Liabilities and Shareholders' Equity	30.06.2017 Consolidated figure
Due to banks		101,450
	<i>Caption 10 - Due to banks</i>	101,450
Due to customers and securities issued		406,017
	<i>Caption 20 - Due to customers</i>	304,518
	<i>+ Caption 30 - Securities issued</i>	101,499
Financial liabilities held for trading		42,517
	<i>Caption 40 - Financial liabilities held for trading</i>	42,517
Financial liabilities designated at fair value through profit and loss		63,017
	<i>Caption 50 - Financial liabilities designated at fair value through profit and loss</i>	63,017
Tax liabilities		1,972
	<i>Caption 80 - Tax liabilities</i>	1,972
Liabilities associated with non-current assets held for sale and discontinued operations		268
	<i>Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations</i>	268
Other liabilities		29,086
	<i>Caption 100 - Other liabilities</i>	20,236
	<i>+ Caption 60 - Hedging derivatives</i>	8,254
	<i>+ Caption 70 - Fair value change of financial liabilities in hedged portfolios</i>	596
Technical reserves		83,593
	<i>Caption 130 - Technical reserves</i>	83,593
Allowances for specific purpose		6,577
	<i>Caption 110 - Employee termination indemnities</i>	1,445
	<i>Caption 120 - Allowances for risks and charges</i>	5,132
Share capital		8,732
	<i>Caption 190 - Share capital</i>	8,732
Reserves (net of treasury shares)		36,930
	<i>Caption 170 - Reserves</i>	10,986
	<i>Caption 180 - Share premium reserve</i>	26,006
	<i>- Caption 200 - Treasury shares</i>	-62
Valuation reserves		-1,838
	<i>Caption 140 - Valuation reserves</i>	-1,838
Equity instruments		4,102
	<i>Caption 160 - Equity instruments</i>	4,102
Minority interests		357
	<i>Caption 210 - Minority interests</i>	357
Net income (loss)		5,238
	<i>Caption 220 - Net income (loss)</i>	5,238
<b>Total Liabilities and Shareholders' Equity</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>788,018</b>

		(millions of euro)	
Captions of the reclassified consolidated balance sheet - Assets	Captions of the consolidated balance sheet - Assets	30.06.2017 Consolidated figure net of the assets acquired	31.12.2016 Restated
Financial assets held for trading	<i>Caption 20 - Financial assets held for trading</i>	42,350	43,613
		42,350	43,613
Financial assets designated at fair value through profit and loss	<i>Caption 30 - Financial assets designated at fair value through profit and loss</i>	70,012	63,865
		70,012	63,865
Financial assets available for sale	<i>Caption 40 - Financial assets available for sale</i>	140,098	146,692
		140,098	146,692
Investments held to maturity	<i>Caption 50 - Investments held to maturity</i>	1,202	1,241
		1,202	1,241
Due from banks	<i>Caption 60 - Due from banks</i>	72,082	53,146
		72,082	53,146
Loans to customers	<i>Caption 70 - Loans to customers</i>	369,089	364,713
		369,089	364,713
Investments in associates and companies subject to joint control	<i>Caption 100 - Investments in associates and companies subject to joint control</i>	699	1,167
		699	1,167
Property, equipment and intangible assets	<i>Caption 120 - Property and equipment</i> <i>+ Caption 130 - Intangible assets</i>	12,185	12,301
		4,790	4,908
		7,395	7,393
Tax assets	<i>Caption 140 - Tax assets</i>	14,482	14,444
		14,482	14,444
Non-current assets held for sale and discontinued operations	<i>Caption 150 - Non-current assets held for sale and discontinued operations</i>	427	423
		427	423
Other assets	<i>Caption 10 - Cash and cash equivalents</i> <i>+ Caption 160 - Other assets</i> <i>+ Caption 110 - Technical insurance reserves reassured with third parties</i> <i>+ Caption 80 - Hedging derivatives</i> <i>+ Caption 90 - Fair value change of financial assets in hedged portfolios</i>	19,328	23,495
		6,168	8,686
		8,177	8,237
		16	17
		5,159	6,234
		-192	321
<b>Total Assets</b>	<b>Total Assets</b>	<b>741,954</b>	<b>725,100</b>
Captions of the reclassified consolidated balance sheet Liabilities and Shareholders' Equity	Captions of the consolidated balance sheet - Liabilities and Shareholders' Equity	30.06.2017 Consolidated figure net of the liabilities acquired	31.12.2016 Restated
Due to banks	<i>Caption 10 - Due to banks</i>	89,410	72,641
		89,410	72,641
Due to customers and securities issued	<i>Caption 20 - Due to customers</i> <i>+ Caption 30 - Securities issued</i>	376,291	386,659
		286,656	291,876
		89,635	94,783
Financial liabilities held for trading	<i>Caption 40 - Financial liabilities held for trading</i>	41,080	44,790
		41,080	44,790
Financial liabilities designated at fair value through profit and loss	<i>Caption 50 - Financial liabilities designated at fair value through profit and loss</i>	62,827	57,187
		62,827	57,187
Tax liabilities	<i>Caption 80 - Tax liabilities</i>	1,872	2,038
		1,872	2,038
Liabilities associated with non-current assets held for sale and discontinued operations	<i>Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations</i>	268	272
		268	272
Other liabilities	<i>Caption 100 - Other liabilities</i> <i>+ Caption 60 - Hedging derivatives</i> <i>+ Caption 70 - Fair value change of financial liabilities in hedged portfolios</i>	26,673	21,745
		18,485	11,944
		7,579	9,028
		609	773
Technical reserves	<i>Caption 130 - Technical reserves</i>	83,593	85,619
		83,593	85,619
Allowances for specific purpose	<i>Caption 110 - Employee termination indemnities</i> <i>Caption 120 - Allowances for risks and charges</i>	6,419	4,830
		1,363	1,403
		5,056	3,427
Share capital	<i>Caption 190 - Share capital</i>	8,732	8,732
		8,732	8,732
Reserves (net of treasury shares)	<i>Caption 170 - Reserves</i> <i>Caption 180 - Share premium reserve</i> <i>- Caption 200 - Treasury shares</i>	36,930	36,805
		10,986	9,528
		26,006	27,349
		-62	-72
Valuation reserves	<i>Caption 140 - Valuation reserves</i>	-1,838	-1,854
		-1,838	-1,854
Equity instruments	<i>Caption 160 - Equity instruments</i>	4,102	2,117
		4,102	2,117
Minority interests	<i>Caption 210 - Minority interests</i>	357	408
		357	408
Net income (loss)	<i>Caption 220 - Net income (loss)</i>	5,238	3,111
		5,238	3,111
<b>Total Liabilities and Shareholders' Equity</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>741,954</b>	<b>725,100</b>

## 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	1st Half of 2017	1st Half of 2016 Restated
<b>Net interest income</b>		<b>3,620</b>	<b>3,687</b>
	Caption 30 Interest margin	4,279	4,338
	- Caption 30 (partial) Contribution of insurance business	-981	-974
	- Caption 30 (partial) Interest margin (Effect of purchase price allocation)	2	5
	+ Caption 80 (partial) Components of the profits (losses) on trading relating to net interest	2	-1
	+ Caption 130 a (partial) Net losses/recoveries on impairment of loans (Time value loans)	340	347
	+ Caption 180 a (partial) Personnel expenses (Time value employee termination indemnities and other)	-22	-28
	+ Caption 190 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)	-	-
<b>Net fee and commission income</b>		<b>3,751</b>	<b>3,545</b>
	Caption 60 Net fee and commission income	3,520	3,263
	- Caption 60 (partial) Contribution of insurance business	245	294
	- Caption 60 (partial) Components of net fee and commission income relating to profits (losses) on trading	6	-
	+ Caption 180 b (partial) Other administrative expenses (Recovery of other expenses)	-20	-12
<b>Income from insurance business</b>		<b>523</b>	<b>571</b>
	Caption 150 Net insurance premiums	3,254	5,142
	Caption 160 Other net insurance income (expense)	-4,267	-6,088
	+ Caption 30 (partial) Contribution of insurance business	981	974
	+ Caption 60 (partial) Contribution of insurance business	-245	-294
	+ Caption 70 (partial) Contribution of insurance business	124	124
	+ Caption 80 (partial) Contribution of insurance business	678	755
	- Caption 160 (partial) Other net insurance income (expense)-changes in technical reserves due to impairm. of securities AFS	-2	-42
<b>Profits (Losses) on trading</b>		<b>591</b>	<b>695</b>
	Caption 80 Profits (Losses) on trading	231	251
	Caption 90 Fair value adjustments in hedge accounting	-3	-64
	Caption 100 b) Profits (Losses) on disposal or repurchase of financial assets available for sale	479	701
	Caption 100 d) Profits (Losses) on disposal or repurchase of financial liabilities	-26	11
	Caption 110 Profits (Losses) on financial assets and liabilities designated at fair value	556	435
	+ Caption 60 (partial) Components of net fee and commission income relating to profits (losses) on trading	-6	-
	+ Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading	43	202
	- Caption 80 (partial) Components of the profits (losses) on trading relating to net interest	-2	1
	- Caption 80 (partial) Contribution of insurance business	-678	-755
	- Caption 100 b (partial) Profits (Losses) on disposal or repurchase of financial assets available for sale (Visa Europe Transaction)	-	-87
	+ Caption 180 b (partial) Other administrative expenses (stocking costs)	-3	-
<b>Other operating income (expenses)</b>		<b>72</b>	<b>143</b>
	Caption 70 Dividend and similar income	183	326
	Caption 220 Other operating income (expenses)	5,162	341
	- Caption 70 (partial) Contribution of insurance business	-124	-124
	- Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading	-43	-202
	- Caption 220 (partial) Other operating income (expenses) (Public contribution for the operation concerning the Venetian banks - Charges for integration)	-1,285	-
	- Caption 220 (partial) Other operating income (expenses) (Public contribution for the operation concerning the Venetian bar)	-3,500	-
	- Caption 220 (partial) Other operating income (expenses) (Recovery of expenses)	-5	-4
	- Caption 220 (partial) Other operating income (expenses) (Recovery of indirect taxes)	-350	-354
	- Caption 220 (partial) Other operating income (expenses) (Impairment losses on repurchased property and equipment)	4	5
	- Caption 220 (partial) Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)	-5	-3
	- Caption 220 (partial) Other operating income(expenses)	-3	-
	+ Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	38	158
<b>Operating income</b>		<b>8,557</b>	<b>8,641</b>
<b>Personnel expenses</b>		<b>-2,624</b>	<b>-2,620</b>
	Caption 180 a) Personnel expenses	-2,686	-2,689
	- Caption 180 a (partial) Personnel expenses (Charges for integration and exit incentives)	40	41
	- Caption 180 a (partial) Personnel expenses (Time value employee termination indemnities and other)	22	28
<b>Administrative expenses</b>		<b>-1,216</b>	<b>-1,238</b>
	Caption 180 b) Other administrative expenses	-1,791	-1,793
	- Caption 180 b (partial) Other administrative expenses (Charges for integration)	22	25
	- Caption 180 b (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)	175	160
	- Caption 180 b (partial) Other administrative expenses (stocking costs)	3	-
	- Caption 180 b (partial) Other administrative expenses (Recovery of other expenses)	20	12
	+ Caption 220 (partial) Other operating income (expenses) (Recovery of indirect taxes)	350	354
	+ Caption 220 (partial) Other operating income (expenses) (Recovery of expenses)	5	4
<b>Adjustments to property, equipment and intangible assets</b>		<b>-374</b>	<b>-357</b>
	Caption 200 Net adjustments to/recoveries on property and equipment	-166	-171
	Caption 210 Net adjustments to/recoveries on intangible assets	-236	-272
	- Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Charges for integration)	5	3
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Charges for integration)	9	3
	- Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment)	-	-
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Impairment)	-	2
	- Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)	-	-
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	14	78
<b>Operating costs</b>		<b>-4,214</b>	<b>-4,215</b>
<b>Operating margin</b>		<b>4,343</b>	<b>4,426</b>



		(millions of euro)	
Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	1st Half of 2017	1st Half of 2016 Restated
<b>Operating margin</b>		<b>4,343</b>	<b>4,426</b>
<b>Net adjustments to loans</b>		<b>-1,432</b>	<b>-1,617</b>
	<i>Caption 100 a) Profits (Losses) on disposal or repurchase of loans</i>	-19	-1
	<i>Caption 130 a) Net losses/recoveries on impairment of loans</i>	-1,091	-1,317
	<i>Caption 130 d) Net losses/recoveries on impairment of other financial activities</i>	-30	48
	<i>- Caption 130 a) Net losses/recoveries on impairment of loans (Charges concerning the banking industry)</i>	48	-
	<i>- Caption 130 a) (partial) Net losses/recoveries on impairment of loans (Time value loans)</i>	-340	-347
	<i>- Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)</i>	-	-
<b>Net provisions and net impairment losses on other assets</b>		<b>-60</b>	<b>-240</b>
	<i>Caption 130 b) Net losses/recoveries on impairment of financial assets available for sale</i>	-462	-90
	<i>Caption 130 c) Net losses/recoveries on impairment of investments held to maturity</i>	-	-
	<i>Caption 190 Net provisions for risks and charges</i>	-1,951	-113
	<i>- Caption 130 b) (partial) Net losses/recoveries on impairment of financial assets available for sale (Charges concerning the banking industry)</i>	449	-
	<i>+ Caption 160 (partial) Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS</i>	2	42
	<i>- Caption 190 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)</i>	-	-
	<i>- Caption 190 (partial) Net provisions for risks and charges (Public contribution for the operation concerning the Venetian banks - Charges for integration)</i>	1,913	-
	<i>+ Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment)</i>	-	-
	<i>- Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)</i>	-	-1
	<i>+ Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Impairment)</i>	-	-2
	<i>+ Caption 220 (partial) Other operating income (expenses) (Impairment losses on repurchased property and equipment)</i>	-4	-5
	<i>+ Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (Net losses/recoveries on impairment of associates)</i>	-7	-71
<b>Other income (expenses)</b>		<b>3,813</b>	<b>201</b>
	<i>Caption 100 c) Profits (Losses) on disposal or repurchase of investments held to maturity</i>	1	-
	<i>Caption 240 Profits (Losses) on investments in associates and companies subject to joint control</i>	329	107
	<i>Caption 270 Profits (Losses) on disposal of investments</i>	6	9
	<i>+ Caption 100 b) (partial) Profits (Losses) on disposal or repurchase of financial assets available for sale (Visa Europe Transaction)</i>	-	87
	<i>+ Caption 220 (partial) Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)</i>	5	3
	<i>+ Caption 220 (partial) Other operating income (expenses)</i>	3	-
	<i>- Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)</i>	-38	-158
	<i>- Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (Net losses/recoveries on impairment of associates)</i>	7	71
	<i>+ Caption 220 (partial) Other operating income (expenses) (Public contribution for the operation concerning the Venetian banks)</i>	3,500	-
	<i>- Caption 270 (partial) Profits (Losses) on disposal of investments (Effect of purchase price allocation)</i>	-	-1
	<i>+ Caption 310 Income (Loss) after tax from discontinued operations (Visa Europe Transaction)</i>	-	83
<b>Income (Loss) after tax from discontinued operations</b>		<b>-</b>	<b>48</b>
	<i>Caption 310 Income (Loss) after tax from discontinued operations</i>	-	105
	<i>+ Caption 290 (partial) Taxes on income from continuing operations (Goodwill impairment)</i>	-	20
	<i>- Caption 310 (partial) Income (Loss) after tax from discontinued operations (Visa Europe Transaction)</i>	-	-83
	<i>- Caption 310 (partial) Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)</i>	-	6
<b>Gross income (loss)</b>		<b>6,664</b>	<b>2,818</b>

		(millions of euro)	
Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	1st Half of 2017	1st Half of 2016 Restated
<b>Gross income (loss)</b>		<b>6,664</b>	<b>2,818</b>
<b>Taxes on income</b>		<b>-889</b>	<b>-793</b>
	<i>Caption 290 Taxes on income from continuing operations</i>	-21	-674
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Discontinued operations)</i>	-	-20
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Charges for integration)</i>	-23	-21
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Public contribution for the operation concerning the Venetian banks - Charges for integration tax effect)</i>	-628	-
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)</i>	-5	-25
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)</i>	-51	-47
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Impairment losses on financial assets - Investments for the stability of the banking system)</i>	-148	-
	- <i>Caption 290 (partial) Taxes on income from continuing operations (Net losses/recoveries on impairment of loans)</i>	-13	-
	+ <i>Caption 310 (partial) Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)</i>	-	-6
<b>Charges (net of tax) for integration and exit incentives</b>		<b>-53</b>	<b>-51</b>
	+ <i>Caption 180 a) (partial) Personnel expenses (Charges for integration and exit incentives)</i>	-40	-41
	+ <i>Caption 180 b) (partial) Other administrative expenses (Charges for integration)</i>	-22	-25
	+ <i>Caption 190 (partial) Net provisions for risks and charges (Public contribution for the operation concerning the Venetian banks - Charges for integration)</i>	-1,913	-
	+ <i>Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment - Charges for integration)</i>	-5	-3
	+ <i>Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Charges for integration)</i>	-9	-3
	+ <i>Caption 220 (partial) Other operating income (expenses) (Public contribution for the operation concerning the Venetian banks - Charges for integration)</i>	1,285	-
	+ <i>Caption 290 (partial) Taxes on income from continuing operations (Public contribution for the operation concerning the Venetian banks - Charges for integration tax effect)</i>	628	-
	+ <i>Caption 290 (partial) Taxes on income from continuing operations (Charges for integration)</i>	23	21
<b>Effect of purchase price allocation (net of tax)</b>		<b>-11</b>	<b>-56</b>
	+ <i>Caption 30 (partial) Interest margin (Effect of purchase price allocation)</i>	-2	-5
	+ <i>Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)</i>	-	-
	+ <i>Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)</i>	-	1
	+ <i>Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)</i>	-14	-78
	+ <i>Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)</i>	-	-
	+ <i>Caption 270 (partial) Profits (Losses) on disposal of investments (Effect of purchase price allocation)</i>	-	1
	+ <i>Caption 290 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)</i>	5	25
<b>Levies and other charges concerning the banking industry (net of tax)</b>		<b>-460</b>	<b>-113</b>
	+ <i>Caption 130 a) Net losses/recoveries on impairment of loans (Charges concerning the banking industry)</i>	-48	-
	+ <i>Caption 130 b) (partial) Net losses/recoveries on impairment of financial assets available for sale (Charges concerning the banking industry)</i>	-449	-
	+ <i>Caption 180 b) (partial) Other administrative expenses (Contribution to resolution fund and deposit guarantee scheme)</i>	-175	-160
	+ <i>Caption 290 (partial) Taxes in income from continuing operations (Contribution to resolution fund and deposit guarantee scheme)</i>	51	47
	+ <i>Caption 290 (partial) Taxes on income from continuing operations (Impairment losses on financial assets - Investments for the stability of the banking system)</i>	148	-
	+ <i>Caption 290 (partial) Taxes on income from continuing operations (Net losses/recoveries on impairment of loans)</i>	13	-
<b>Impairment (net of tax) of goodwill and other intangible assets</b>		<b>-</b>	<b>-</b>
	<i>Caption 260 Goodwill impairment</i>	-	-
<b>Minority interests</b>		<b>-13</b>	<b>-98</b>
	<i>Caption 330 Minority interests</i>	-13	-98
<b>Net income (loss)</b>	<b>Caption 340 Parent Company's net income (loss)</b>	<b>5,238</b>	<b>1,707</b>

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# 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:  $(\text{Ending value}/\text{Starting value})^{1/n} - 1$ .

**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 ( $\lambda$ )**

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



Approval of the Interim Statement as at 30 September 2017:

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